

NEWS: EUROPE

Air transport groups condemn move □ Fees to be based on emission of air pollutants

Zurich to charge dirty aircraft more

By William Hall in Zurich

Zurich, Switzerland's number one airport, has become the first in the world to charge extra for aircraft which pollute the atmosphere, and Geneva airport is expected to follow shortly.

Zurich is introducing new landing fees linked to levels of engine emissions from September 1. Aircraft which meet certain standards will benefit by a 5 per cent reduction in landing charges, but excessively dirty aircraft face an increase of up to 40 per cent.

Fees depend on size of aircraft, but a typical jumbo jet pays around Sfr3,500 (\$2,330). Jets which meet the standards will benefit from a Sfr175 cut in landing charges, while the dirtiest aircraft will have to pay up to Sfr1,400 extra.

Zurich's decision, which has the backing of the Swiss government, was condemned yesterday by the International Air Transport Association (IATA), which said that it set a "dangerous precedent". It threatens worldwide efforts to standardise emission limits and ignores

concerns raised by IATA and other organisations.

IATA said there was no clear evidence that the air quality surrounding Switzerland's two biggest airports was suffering unduly, and the criteria which the Swiss proposed to apply were "scientifically unsound".

The Swiss want to introduce the new landing charges in order to speed up the introduction of aircraft engines with low pollutant emission rates. However, the International Civil Aviation Organisation (ICAO) specifies that countries

should refrain from imposing restrictions and other penalties that would encumber aircraft that meet recommended international standards and practices.

There will be five categories of landing fees, depending on engine emission, and Zurich estimates that just under half the aircraft at the airport will benefit from a reduction in landing charges. Only 2 per cent of the aircraft will face the maximum surcharge.

The only other country to attempt similar action was Sweden, which tried to levy charges

related to carbon dioxide emission on flights within the country. The idea was dropped because it infringed European Union rules. However, it is understood that Sweden is reassessing the situation and might introduce its own version of Switzerland's emission-related landing charges next year.

Zurich stressed that it would not raise any extra income from the new charges. However, it is understood that Swissair, which accounts for nearly half of Zurich's traffic, will be the main beneficiary of the new charges.

Swedes to hold eugenics inquiry

By Tim Burt in Stockholm

The Swedish government yesterday announced a public inquiry into allegations that up to 60,000 women were forcibly sterilised in a 40-year programme of "ethnic cleansing".

A special commission set up by the Ministry of Social Affairs will investigate claims that thousands of women with learning difficulties or from non-Nordic ethnic backgrounds underwent sterilisation against their will between 1935 and the mid-1970s.

Margot Wallstrom, Sweden's social affairs minister, is today expected to disclose details of the inquiry and deliver the government's initial response to suggestions that the ruling Social Democrats sanctioned the sterilisation policy during the party's previous administration.

In Oslo, meanwhile, a Norwegian government spokesman yesterday disclosed that a state-funded research programme had been launched to clarify the extent of forced sterilisations in Norway.

Although the government has rebuffed claims that up to 40,000 women underwent forced sterilisation during experiments into "racial cleansing sciences", it admitted that about 2,000 men and women were sterilised against their will to the 40 years up to 1975. Most victims were said to have mental illnesses, but officials confirmed that members of the "latter community" - a poor itinerant group - were also sterilised.

The history of Norway's sterilisation policy is being examined by sociologists at the University of Trondheim, who are expected to deliver their conclusions shortly to Hill-Marta Solberg, the country's minister of health and social affairs.

The racial cleansing policies, first launched in 1935, were said to have targeted "inferior" racial types to encourage the proliferation of Aryan-dominated communities. Swedish government officials said that the inquiry would also deal with the question of financial compensation for men and women sterilised against their will.

Swiss doctors sterilised mentally handicapped patients against their will under a law passed in 1928, a copy of which was requested by Adolf Hitler, a Swiss historian said. Reuters reports from Geneva, Hans Ulrich Jost, a professor of history at the University of Lausanne, said on Tuesday that many people - nine out of 10 of them women - were affected by the campaign, in the canton of Vaud.

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Norway's coming oil cash wave

Robert Corzine on a strategy for turning petroleum into pensions

Norway, a country which throws upon conspicuous consumption and retains more than a streak of puritanism, is facing an embarrassment of riches. Over the next decade or so, a predicted surge in oil revenues will transform the financial status of the country, which is now the world's second largest oil exporter behind Saudi Arabia.

But with an economy that is already close to overheating, officials fear that a sharp rise in public spending based on higher oil revenues could wreck a carefully orchestrated recovery of the non-oil economy.

Although demands for higher public spending are prominent in the present general election campaign, most politicians accept that a buffer must be maintained between the "offshore" and "mainland" economies, which respectively account for 15 per cent and 85 per cent of gross domestic product.

"The 15 per cent that represents oil is not enough to save the economy from a serious setback," said Tom Therkildsen, state secretary at the finance ministry. "But it is enough to destroy."

The buffer between the two is the state petroleum fund, which is intended to absorb surplus oil revenues and invest them abroad against the day when Norway's oil and gas production wanes. It is seen as one of the main supports in the next century for Norway's ambitious pension and social welfare programmes.

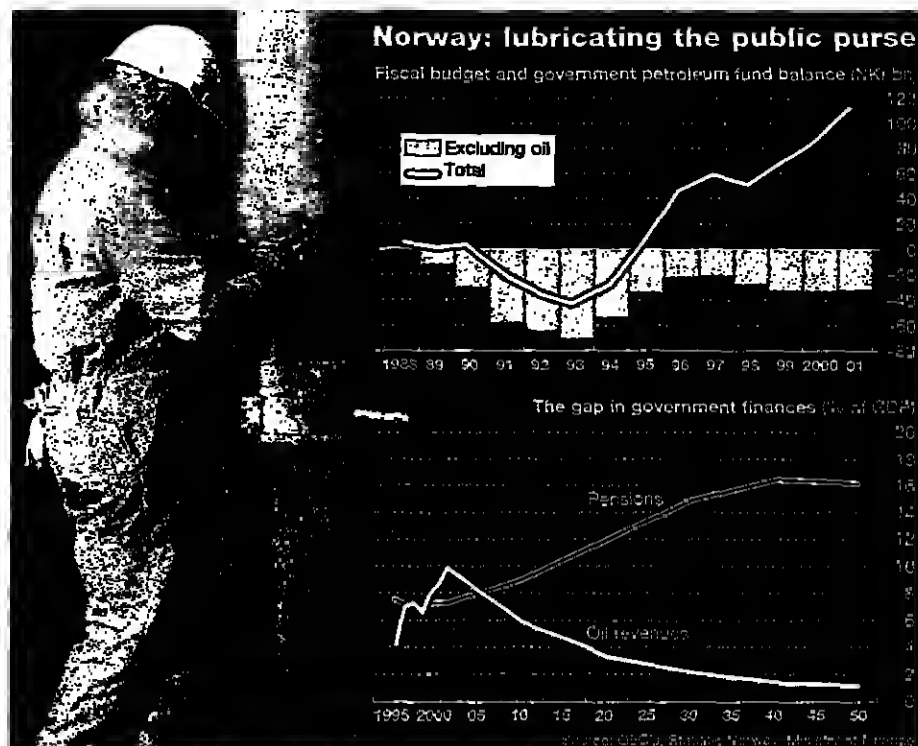
But a decision earlier this year to shift as much as half the fund from low-risk, high-liquidity bonds and bills to equities has caused considerable debate as to how the new fund should be structured and what role it will play in international equity markets.

Although details of how much money will be allocated to individual markets around the world will not be published until October, well after the general election on September 15, government thinking on the main issues appears well advanced.

What is not so clear, however, is just how high the fund will be. Officials in Oslo tend to downplay its potential international impact. They suggest it will reach a total of Nkr110bn and Nkr120bn (\$14.5bn-\$15.8bn) by the end of this year, or almost 10 per cent of Norway's GDP.

But even the normally cautious official forecasts show government revenues from the petroleum sector rising strongly in the next few years, from around Nkr70bn in 1996 to nearly Nkr127bn in 2001.

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The pace at which the

fund grows will depend on an annual decision by parliament to allocate oil revenues between the fund and the national budget. This year, about three-quarters of the estimated Nkr79bn of the government's oil-related cash flow will go to the fund, because of the buoyancy of the non-oil economy and restraints on public spending.

Assuming that the non-oil economy remains relatively robust, the fund is likely to grow quickly over the next decade as Norway's oil production rises to a new plateau of around 3.7m barrels

a day by 2000 and stays there for several years.

Government studies suggest that within 20 years or so the fund could represent perhaps 130 to 150 per cent of a projected Nkr2,000bn GDP. "That will be a large fund," one official acknowledged.

Some observers say the government is too cautious in its estimates. Earlier this week, petroleum ministry officials expressed optimism that oil production might exceed official forecasts. Mr Therkildsen admits that the size of the fund "could go even higher". But he warns that it "could also go substantially lower", depending on oil prices and how much oil money is shifted to the domestic economy by future governments.

Critics of the plan to invest in equities say it will be impossible to separate the operation of such a large fund from Norway's broader trade, commercial and foreign policies. Mr Therkildsen disagrees. "We're trying to keep foreign and trade policies out of the fund," he says. "That would be overloading it with conflicting goals."

Officials believe the fund should help to avoid any conflicts of interest. There will be no strategic shareholdings and strict limits will be placed on holdings in individual companies. The fund is likely to wind up with holdings in between 1,000 and 2,000 companies worldwide, because the emphasis is on as broad as diversification as possible.

Trapped by the Kremlin's bold market reforms

Chrystia Freeland visits Turukhansk, Siberia, whose inhabitants call themselves the 'prisoners of the north'

This far north, the Kremlin's promises of economic revival, so credible on the booming streets of Moscow, seem like a bad joke.

"Reforms? What reforms?" thundered Ivan Khokhlov, head of the regional administration of Turukhansk, a remote area in central Siberia. "We've reformed into a country of criminals. If you're honest in this country, you are poor and robbed. If you are rich, you are a thief and in power!"

Such diatribes are commonplace in towns such as Turukhansk, a desolate settlement on the banks of the mighty Yenisei River in Krasnoyarsk Province.

Lured to the far north under Communism by high wages and the dream of a comfortable retirement in more temperate climates, the inhabitants of Turukhansk and hundreds of similar towns have been trapped by Russia's bold market reforms, which wiped out Soviet-era savings and undermined the centrally planned economies of many northern regions.

Today, they call themselves "prisoners of the north", and many of them will never leave.

In contrast to residents of Moscow and some other big Russian cities, the people of the far north have not yet benefited from the transformation which liberated the country after seven decades of Communism.

Living in hostile regions chilled by permafrost and nine-month winters, the citizens of the north are the human detritus of central planning.

Like the huge, now often silent, industrial behemoths which dot the Russian land-

scape, many northern towns are uneconomical in a market economy.

But unlike factories, human beings cannot simply be closed down and, for now, the Kremlin lacks the money to resettle all the hundreds of thousands of prisoners of the north in gentler provinces.

"Every day, I have women coming to me, sobbing, saying 'Please give us money, we cannot feed our children'," said Mr Khokhlov, whose mop of white hair and wild blue eyes lend him the look of an Old Testament prophet. "We

scarcely survive."

The desperation is apparent on the gloomy streets of Turukhansk. Ramshackle wooden cottages and crumpled Soviet apartment blocks hug deeply rutted dirt roads.

Cars are rare in this town, which is connected with the rest of the world only by the river - for the few months when it is not frozen - and by rickety Aeroflot aircraft. Instead, people walk, or ride in ancient motorcycles with wobbling sidecars.

The harsh Arctic climate adds to the misery. In towns in central Russia that depend on inefficient factories, local people stare off absolute poverty by living off the produce of garden plots.

But gardens are a less certain salvation in the far

north, where onions, lettuce and cabbage are the only reliable crops, and potatoes can be coaxed to grow only by gardeners lucky enough to discover an island of thawed land in the permafrost.

Turukhansk's fish-canning factory, which once employed much of the town, is now abandoned, driven out of work by cheap food imports.

The town lives primarily on hand-outs from Moscow and Krasnoyarsk, the regional capital.

But because of the parlous state of Russia's public

early 1950s just after graduating from a meteorology institute in St Petersburg.

"It was mostly a place of imprisonment and exile, so we all worked alongside one another, the free and the imprisoned," Ms Sukhova said of her youth, when most of Igarka's inhabitants were sentenced to live in this inhospitable place by Stalin. "We all lived badly together, so we were friends. It is when some are rich and some are poor that you have problems."

The vast timber factory which once employed tens of thousands of people in Igarka has been forced to a standstill today by prohibitive shipping costs. The town is a graveyard of huge, grey piles of slowly rotting wood. Yet Ms Sukhova believes she will never leave Igarka, and remains a committed Communist.

"The youth want us to take our Lenin statue down, but we say, for one thing, it is our history, and secondly, we haven't yet found anyone good enough to replace him," Ms Sukhova said staunchly.

Other northerners are more optimistic. Vitaly Ivanov, a photographer from Krasnoyarsk who spends much of his time in the Arctic, is confident that in five years, there will be a rebirth of the far north.

His wish would probably seem perverse to the prisoners of the north, who can only dream of the day the Russian federal government grows rich enough to implement its ambitious resettlement programme. But if the Kremlin makes good on its promise, then perhaps the far north will again become a region of adventurers, not of captives.

France firm on interest rates

By Andrew Jack in Paris

No "automatic" link existed between German and French interest rates, despite the close connection between the two countries' economic policies, Jean-Claude Trichet, governor of the Bank of France, said yesterday.

In a radio interview, Mr Trichet said decisions on rates were made uniquely by the bank's politically independent monetary policy committee, in the interests of preserving confidence in the franc. But he noted there were "tight links" with the Bundesbank, if only because "within less than a year our two currencies will be called on to merge".

Echoing signals from Dominique Strauss-Kahn, finance, economics and industry minister, Mr Trichet said it was possible France's budget deficit as a proportion of GDP would not exceed 3 per cent, meeting one of the criteria for European monetary union.

He made his comments as the finance ministry in Paris indicated that public expenditure would increase by 1.5-1.6 per cent in 1998, slightly ahead of government predictions.

Mr Trichet said any growth in wages should be restrained "to have the best possible means for long-term growth and employment". These factors would be impeded by any increase in unit costs related to a cut in working hours.

His comments follow increasing signs of tension over the leftwing government's employment policy, after the Communist-linked CGT union called for demonstrations and even strikes to raise salaries, create jobs and reduce working hours without pay cuts. Details of the government's working hours legislation are likely to be finalised next month.

EUROPEAN NEWS DIGEST

Italy tries to placate Greece

Italy sought yesterday to defuse a row with Greece and the Greek Cypriots by saying it recognised only the Cyprus government and not the breakaway Turkish Cypriot north of the island.

The foreign ministry added in a statement that accession talks between the European Union and Cyprus would help overcome the division of the Mediterranean island.

Lamberto Dini, Italy's foreign minister, sparked a storm on Tuesday when he suggested that EU membership talks should involve both the Cyprus government, made up of Greek Cypriots, and the Turkish Cypriot north. "It has to be recognised that there are two republics in Cyprus, two entities, two governments," Mr Dini said after talks in Rome with Turkey's foreign minister, Ismail Cem. "If the EU does not recognise this basic fact in conducting the negotiations for membership, then you run into problems." Greece reacted furiously to the reports, warning of "serious problems" in its relations with Italy if they proved to be true.

Turkey and the Turkish Cypriots have threatened to integrate the breakaway north with Turkey if the EU and the Cyprus government persist with the accession talks without making provision for Turkish membership of the EU.

POLISH POLITICS

Coalition agrees grain funding

Poland's governing coalition has patched up its differences over budget funding for purchases of grain for this year's harvest, enabling the Polish Peasant party (PSL) to withdraw support for a motion of no-confidence in Wlodzislaw Cimoszewicz, the prime minister.

The motion, to be voted on later this week, threatened to break up the coalition between the PSL and the reformed communist Democratic Left Alliance (SLD) before parliamentary elections on September 21. Agreement between the two parties on a government plan to purchase an extra 300,000 tonnes of grain from farmers has resolved the row. The agreement means that the SLD has left open the prospect of a post-election coalition with the PSL. However, Waldemar Pawlak, the PSL leader, is thought to want the premiership as the price of continuing support for the reformed communists after the elections.

CONTRACT KILLING

Russian publisher shot

A prominent Russian publisher was killed on the stairs of his house in Moscow in an apparent fight over lucrative contracts to print schoolbooks, police said yesterday. Alexander Krutik, 29, was shot by unknown assassins as he walked out of the lift on Tuesday evening accompanied by his bodyguard, police said.

The murdered publisher headed the Drofa publishing house, which prints about 80 per cent of all schoolbooks and textbooks in Russia. His killing was believed to be linked to expensive contracts to print schoolbooks, which have been in short supply since the collapse of the Soviet education system.

The killing was the second attack targeting Drofa leaders. The publishing house's deputy director was shot dead in November 1996. Last May, an unknown assailant shot and wounded the education chief in Moscow, Lyubov Kozina, and Russian newspapers have speculated that the attack was connected to the distribution of state education funds and contracts.

NETHERLANDS

Coalition in drugs row

Tensions within the three-party Dutch coalition government broke to the surface yesterday as parliament criticised the cabinet's handling of a cocaine-trafficking indictment against Desi Bouterse, former military dictator in Surinam. A grilling given to two senior ministers ended an informal truce in place while the Netherlands held the European Union presidency in the first half of the year, and signalled the start of campaigning for a general election to be held next May.

It followed confirmation by Hans van Mierlo, foreign minister, that he had convinced Winnie Sorgdrager, who holds the justice portfolio, not to seek the implementation of an Interpol arrest warrant last month while Mr Bouterse was in Brazil. Mr van Mierlo defended the decision on the grounds that The Hague had no adequate extradition treaty with Brasilia, but MPs accused him of allowing diplomatic considerations to influence the course of justice.

ITALY

Berlin bomb suspect detained

Italian police have arrested a Libyan man wanted in Germany for the bombing in 1986 of a Berlin discotheque frequented by US soldiers, police officials said yesterday.

The man is believed to be the last fugitive wanted by German authorities in connection with the attack. He was detained as he walked along a street in Rome on Tuesday.

Police said two other Libyans and an Italian had also been arrested and charged with aiding and abetting him. According to German authorities, the man was once a member of the Libyan secret services.

He is to be extradited to Germany to face charges of multiple homicide in connection with the bombing of the La Bella discotheque in West Berlin, in which two US soldiers and a Turkish woman were killed and 200 other people were injured.

ROMANIA

Miners in redundancy deal

About 40,000 Romanian miners have accepted redundancy terms under a government plan to make mines profitable by cutting the workforce, union officials said yesterday. The government had expected that only 32,000 of the 210,000 in Romania's confederation of miners' unions (CSMR) would volunteer for redundancy this year as part of a plan to phase out 64,000 mining jobs by 2005.

CSMR president, Marin Condescu, said the terms, which offer 850,000 lei (\$114) a month for five years, were generous. "There are mines where the monthly salary does not exceed 550,000 lei a month," he said. Miners could also take their entitlement in a lump sum equivalent to \$7,200.

SPANISH TRADE BALANCE

Improvement tails off

The recent sharp improvement in Spain's trade balance is showing signs of slowing as growing domestic demand pulls in more imports, according to provisional figures from the economy and finance ministry.

The country's trade deficit in the second quarter was virtually unchanged from the same period last year, after showing a 22 per cent reduction in the first quarter. Accelerating import growth in June, led by purchases of capital goods, brought a 13 per cent increase in the monthly trade gap to Ptas242.6bn (\$1.6bn). But the deficit for the first half was still 10 per cent narrower than last year at Ptas1,298.2bn, reflecting an increase of more than 16 per cent in exports. Imports over the six months were up by more than 11 per cent.

Strike ma
Brazil
port sale

NEWS DIGEST

Coalition
in Surinam

New Disney boycott

Cuba crop pest

Subway bidding

Strike may hit Brazil port sale

By Jonathan Wheatley
in São Paulo

Workers at Santos, Latin America's biggest seaport, are on the verge of a strike that could bring the port to a standstill, less than a month before the planned auction of its main container terminal to private operators.

The Santos workers, whose pay and working arrangements have contributed to the Brazilian port being among the most expensive in the world, meet this evening to vote on a union proposal for a strike over job losses and changes to working conditions.

Union leaders have been angered by the port authority's decision to fire 2,300 dock workers on fixed contracts on September 1 and force them to register as freelance workers with a recently established federal agency.

The agency, known as OGM, is responsible for hiring on a daily basis. Daily hiring of dock workers is among the most contentious issues in the industry.

The move is part of a drive to modernise Santos in an effort to cut Brazil's high business operating costs.

Codesp, the São Paulo state ports authority, began reducing tariffs with a 34 per cent cut last September and a pledge to make additional reductions of 7 per cent every six months. But it says further cuts depend on reducing labour costs.

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South-east electricity giants show how to generate political power

When a member of Georgia's political elite fancies a spot of bird-watching or fishing in an unspoiled stretch of water, the most likely choice will be a reservoir nestled beneath a giant, coal-fired electricity plant.

The popularity of Lake Juliette, a scenic wildlife habitat whose main purpose is to provide water for a 3,300MW furnace, is one reason why the debate over the \$200bn-per-year US power industry feels different in this south-eastern state.

Electricity providers like Georgia Power and Florida Power and Light, the main owners of the huge Scherer facility, are quite literally powers in the land, with political muscle and a benign public image that many utilities would envy.

In states like California and Massachusetts, power companies face well-organised opposition from liberal lobby groups who accuse them of recklessly endangering the environment and over-charging customers.

Those states have led the way in the sector's deregulation by calling for freedom of choice for at least some retail customers from next year.

But in the south-east, home of some of the nation's largest electricity providers, the picture looks different. There is little immediate threat to the regulatory regime under which these utilities have flourished.

Their influence is also being felt in the national debate: helping to reduce the chances of a federally mandated timetable for free com-

petition and to increase the prospects that utilities will be allowed to recover their stranded costs - past investments rendered uneconomic by deregulation.

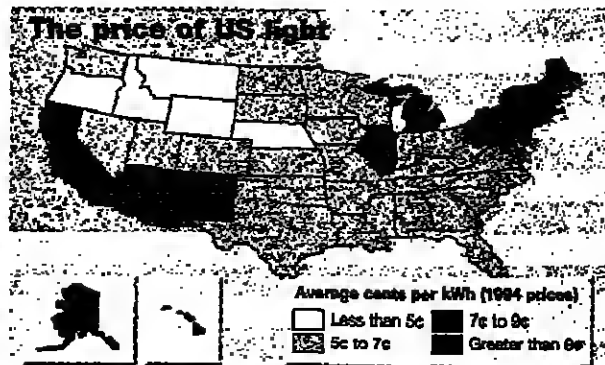
On the latter question, there is stiff opposition from the fast-growing gas industry based in Houston, Texas, which backs a proposal from the Republican congressman Tom DeLay for deregulating the electricity sector with no recovery of stranded costs.

But the fact that many senior US politicians - including Newt Gingrich, the House speaker, and Trent Lott, the Senate majority leader - hail from the south-east (Georgia and Mississippi respectively) provides an added assurance that the grand old utilities can at least make their case in Washington.

In Alabama, the law changed in the state utility's favour last year - by entrenching the local regulator's right to make any industrial user who leaves the system pay the extraordinary costs created by his departure.

Alabama Power, a leading force in the economic development consortium which has attracted Mercedes and other foreign manufacturers to the state, argued successfully that the abrupt departure of an industrial user could force the utility to impose extra burdens on households.

The south-eastern power companies' political brawn could mean that they are well-placed to take advantage of competitive conditions in other regions, sectors and even continents -



Shock therapy: main electricity restructuring proposals

In the House

Rep. Dan Schaefer's bill would:

● Give states six months from enactment to formulate plans to implement retail competition by end-2000

● Leave to states' discretion whether to allow utilities to recover their "stranded" costs (past investments rendered uneconomic by deregulation)

● Require all generators to obtain an escalating percentage of their energy from renewable sources using a credit trading system (i.e. purchasable from other generators)

Rep. Edward Markey's bill would:

● Not establish a date by which states must restructure but offer incentives for those that do

● Require the establishment of funds for public interest programmes - such as renewable energy, conservation and low-income assistance programmes -

to qualify for relief from federal public utility laws that restrict competition (Pump and Pledge)

● Establish similar renewable energy system

In the Senate

Sen. Dale Bumpers' bill would:

● Require retail competition by end-2003

● Allow states to deal with stranded cost recovery issues on their own, but allow utilities to approach Federal Energy Regulatory Commission if their states do not allow it

● Establish renewable energy system

Sen. Craig Thomas' bill would:

● Give states legal authority to decide on competition, standards and renewable energy

● Repeal Pump and Pledge, and Pledge 18 months after

Source: Potomac Communications

while remaining firmly entrenched at home.

Duke Power of North Carolina has made one of the most dramatic expansion moves by announcing a \$7.7bn alliance with the gas company Panenergy.

Southern, the largest US electricity producer and parent of both Georgia Power and Alabama Power, hopes by 2003 to be generating 30 per cent of its revenue by non-traditional sources -

overseas investments and participation in deregulated parts of the home market, like the booming wholesale trade in electricity and gas.

A.W. "Bill" Dahlberg, Southern's president, insists there is no contradiction between enjoying a largely regulated environment at home (though Georgia allows limited competition for industrial clients) while taking advantage of liberalisation in other places.

"Where the policy-makers decide they want competition, and we are in a position to participate, we have been very active," he says.

Georgia Power's bills averaged 6.15 cents per kilowatt-hour last year, while Alabama Power charged 5.4 cents, against the national average of 7.15 cents. "Our customers don't appear to be unhappy with these prices," says Todd Terrell, a Southern representative.

In fact, Southern does face a legal challenge from a group called the Campaign for a Prosperous Georgia, which argues that regulators have given the company too much leeway to invest abroad without considering local consumer's needs.

But CPG hardly compares in numbers or political clout with the anti-utilities campaigns of Boston, Houston or San Francisco.

With confidence that goes with being one of Atlanta's most influential figures - he helped bring the Olympic Games to the city and promote its boom-town image - Mr Dahlberg makes the unconventional prediction that the region will need to build more power generation capacity within a few years.

"We still have an obligation to serve our customers. People say that in future that may not be so, but we currently have that obligation, and we take it seriously," he adds in a comment whose political subtext is clear: if a system for serving electricity users ain't broke, don't rush to fix it.

Mr Dahlberg resigned in December 1994, three months after an independent counsel began investigations. A former Mississippi congressman, Mr Espy has denied criminal wrongdoing.

The indictment also said he led to the White House when it investigated the allegations as part of an ethics review and failed to disclose the gifts on his government financial disclosure report.

If convicted of all 39 charges and sentenced consecutively he could face a jail term of more than 100 years.

Bruce Clark

AMERICAS NEWS DIGEST

Coalition falls in Surinam

A row over government spending and the sacking of the finance minister have led to the break-up of Surinam's year-old coalition government.

Jules Wijdenbosch, president of the former Dutch colony in the north of South America, is negotiating with several small political parties to join his National Democratic party after two factions in the coalition defected.

The defections have left Mr Wijdenbosch controlling 22 of the 51 seats in the national assembly.

Motilal Mungra, the finance minister, was fired this week after complaining that the president was overspending, and was doing so without the approval of members of the coalition. Mr Mungra disapproved of Mr Wijdenbosch's purchase of an armoured car and a presidential yacht.

Carnate James, Kingston

CHRISTIAN PROTEST

New Disney boycott call

The head of a conservative Christian group is asking millions of US radio listeners to join a boycott of Disney products.

James Dobson, president of Focus on the Family, said this week that he would ask the 3m-5m people who follow his ministry's radio programmes to complain about Disney products the group finds offensive.

The Southern Baptist Convention started the boycott in June to express its objection to Disney policies, including health benefits for same-sex partners of its employees. It also objected to films such as *Pulp Fiction* produced by its subsidiaries, and to its television show *Ellen*, which features a lesbian character.

The boycott "won't bankrupt Disney, given their enormous resources, and we may not even damage them financially", Mr Dobson said. "But we can certainly let our constituency know that Disney is no longer friendly to the family."

Disney said it respected the groups' right to protest but also felt the attacks on us were "unwarranted, unfair and inappropriate."

AP, Colorado Springs

BIOLOGICAL WARFARE

Cuba crop pest claim fails

Cuba has apparently failed in its bid to convince members of the United Nations biological weapons convention that it has been the victim of "biological aggression" by the US.

Ian Soutar, the UK's disarmament ambassador in Geneva, who chaired a specially convened "consultative" meeting of convention members, said yesterday that on the basis of the evidence presented to the meeting it had not been possible to draw "a direct causal link" between the flight of a US narcotic crop eradication aircraft over Cuba last October and the appearance in Cuba of the thrips palm crop-eating pest.

He plans to produce a final report on the issue by the end of December after governments have had the chance to make written comments on the evidence. Cuba has alleged that the US deliberately released the pest, a charge the US called "ridiculous". The thrips palm, which was already present in the Caribbean, can also be spread by wind.

Frances Williams, Geneva

MEXICO CONTRACT

Subway bidding suspended

Mexico's Comptroller General's Office (Secodam) has suspended the bidding for an estimated \$400m contract to purchase and maintain 28 subway trains, saying none of the bids fulfilled technical requirements.

Two international consortia were bidding for the concession when the Spain's Construcciones y Auxiliar de Ferrocarriles (CAF) complained about the procedure. The Secodam did not say if or when it might reopen the tender.

"The evaluation procedure of the offers has been resolved and declared null," Secodam said in a statement. "None of the technical offers presented complied completely with requirements," it added.

The project was to provide trains for a planned "B" line of Mexico City's subway system.

Reuters, Mexico City

Ban on action for minorities upheld

By Mark Suzman
in Washington

A controversial California law that would impose a state-wide ban on affirmative action programmes for women and minorities is expected to take effect today after a federal appeals court rejected a motion by civil rights groups to delay its implementation.

The 9th US Circuit Court in San Francisco dismissed an appeal by opponents of Proposition 209 on Tuesday night to stop it from taking effect until the Supreme Court had decided whether or not to review the case.

Unless the Supreme Court now decides to grant an emergency stay pending its own examination of the issue, or the appeals court chooses to delay enforcement of its decision, the measure will become law today.

The announcement was welcomed by Pete Wilson, state governor and a prominent backer of the measure, who said the decision "takes us another step closer to eliminating unfair preferences in government and public school admissions".

The American Civil Liberties Union, which has been leading the challenge, said it was now preparing an appeal to the Supreme Court to be submitted "as soon as possible". Dan Lungren, California's attorney-general, said the state would strongly oppose any such motion.

Proposition 209 was narrowly approved by California voters last year, but implementation has been delayed by a series of court battles. Last November, a federal judge concluded there was a "strong probability" that the law would prove unconstitutional, and blocked it from taking effect. However, that judgment was overturned on appeal in April, prompting the latest failed attempt by the ACLU to secure another review of the decision.

If implementation goes ahead as planned, it will give further impetus to a growing national backlash against affirmative action programmes which have been used to redress ethnic and sex inequalities in fields ranging from education to government employment over the past 30 years.

Opponents say the measure will reverse recent progress made in ending racial discrimination. At the University of California, which recently ended affirmative action in its admission policies, enrolment by blacks and other minorities has plummeted.

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NEWS: INTERNATIONAL

Successor to de Klerk may rejoin government

By Roger Matthews
in Johannesburg

South Africa's opposition National party may decide to rejoin the government of national unity following the election of a successor to F.W. de Klerk, the former president, who is resigning as party leader.

Hernus Kriel, premier of the Western Cape province and favourite to win the leadership, is believed to favour reversing Mr de Klerk's decision last year to leave the coalition. A spokesman for Mr Kriel said yesterday that if elected leader on September 9 he would "probably" exercise the National party's right to rejoin the government.

Mr de Klerk served as deputy president until he was walked out of the government in May last year, taking with him five other National party ministers. He said his decision had been provoked by the waning influence of the party within the cabinet, but admitted yesterday its ability to influence policy was even less in opposition.

Support for a return to government came yesterday from P.W. Botha, South Africa's long-serving foreign minister until the 1994 general election. He said he would consider "making himself available as leader" if the party agreed that it should again form part of the government, along with the African National Congress and the mainly-Zulu Inkatha Freedom party headed by Chief Mangosuthu Buthelezi.

Mr Botha said the party would also have to accept fundamental changes, and begin co-operating fully with the Truth and Reconciliation Commission headed by Archbishop Desmond Tutu.

Mr de Klerk has apologised for apartheid but clashed with Archbishop Tutu after denying any knowledge of gross human rights abuses carried out by agents of the former government.

Roelf Meyer, a candidate for the National party leadership until he quit earlier this year, said he believed there was little chance of internal reform following the departure of Mr de Klerk. Mr Meyer resigned after Mr de Klerk refused to endorse his efforts to widen the support base and draw in other parties.

"Even so, if there was anyone who could attract support from across the political spectrum it was de Klerk," said Mr Meyer. "Without him the National party has no ability to do so. It is much more likely that it will be reduced to a regional or provincial party."

Mr Meyer, who plans to launch a new political movement next month in co-operation with former ANC executive member Bantu Holomisa, added that most "progressives" had already left the Nationalists to join his new organisation. Although President Nelson Mandela would be bound to welcome the National party back into government it would force him to sack several ANC ministers to make portfolios available. Under the terms of the agreement reached before the 1994 election, any party which achieved 10 per cent of the vote had the automatic right to cabinet posts.

Marthinus van Schalkwyk, the National party's executive director, was the only confirmed candidate for the leadership last night, and senior party members said the contest was likely to be between him and Mr Kriel.

CLIMATE CONFERENCE: Experts fear floods and drought across the globe

El Niño plays havoc with world's weather

By Frances Williams
in Geneva

The disastrous recent flooding in central Europe and the worsening drought in North Korea and central China may both be due to what scientists are calling "the climate event of the century" - the early and forceful appearance of the El Niño weather system that periodically disrupts the world's climate.

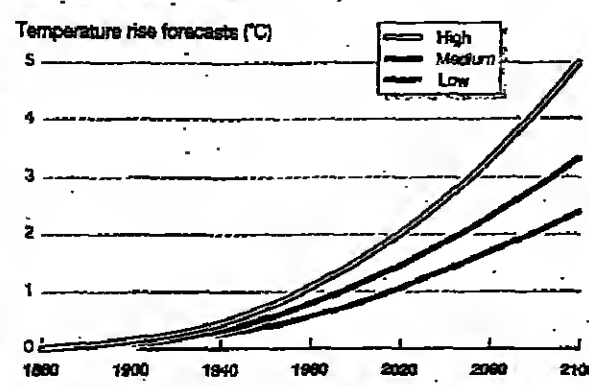
Climate experts attending a three-day international conference on climate research that ends today say the El Niño phenomenon that began in early summer could surpass that of 1982-83 which claimed nearly 2,000 lives and damaged crops and property worth \$13bn.

El Niño or "the boy", more specifically the Christ Child, is the name given to an irregular appearance of warm surface water in the Pacific off the western coast of South America that affects global wind and rainfall patterns.

In July the sea surface temperature in the eastern tropical Pacific was 4.5 degrees above normal, breaking all previous records, and the climate effects are already being felt around the world.

"This event has already

Global warming



The El Niño effect is the climate event of the century say scientists. Among its other effects, they predict an especially turbulent stormy winter in California, above-normal rainfall in the south of the US more generally and worsening drought in Australia, Indonesia, the Philippines, southern Africa and northern Brazil.

reached historic proportions," Ants Leetmaa, director of the Washington-based Climate Prediction Centre of the US National Weather Service, said yesterday. El

Niño's peak is likely to be reached late this year or early in 1998, before weather conditions return to normal next summer.

Among its other effects,



Drought in Australia: El Niño is expected to worsen the problem and hit farm production worldwide

scientists are predicting an especially turbulent stormy winter in California, above-normal rainfall in the south of the US more generally and worsening drought in

Australia, Indonesia, the Philippines, southern Africa and northern Brazil.

Although the drought in North Korea had begun before El Niño made its

appearance, it had been made more severe by the interaction of El Niño and other tropical weather systems, Mr Leetmaa said.

And while El Niño effects are normally weak in Europe, Mr Leetmaa said the recent flooding was due to weather patterns that bore a strong resemblance to those that appeared over Europe during the 1982-83 El Niño effect.

Over the coming winter, by contrast, northern Europe is expected to have slightly less rainfall than usual while southern Europe is expected to have more.

The 1982-83 El Niño hit crop and commodity production worldwide, and output forecasts for this year are already being scaled back substantially. Increased risk of malaria in south America is another unwelcome consequence of El Niño, as mosquitoes quickly spread to warmer climes.

Though scientists have made huge strides in predicting the occurrence and climatic effects of El Niño, they still do not know what triggers its appearance or influences its strength. However, El Niño events appear to be increasing in frequency and dimension, raising suspicions that they may be related to global warming.

Scientists pressed to pin down climate threat

By Leyla Bouton,
Environment Correspondent

Leading scientists are expected to respond today to pressure from politicians to clarify the threat of climate change to specific parts of the world.

Scientific uncertainty is the crux of an international dispute over what should be done to tackle what US President Bill Clinton has described as the world's most serious environmental problem.

More than 300 scientists are meeting in Geneva this week under the auspices of the World Climate Research

Programme (WCRP), a body co-ordinated by governments and the United Nations, to agree priorities for future research.

Roger Newson, head of climate modelling for the WCRP, said the meeting would "clarify and specify what action must be taken so we can... give better answers on man's effect on climate."

"There's a lot of pressure on us to do that," he added. Scientists fear that increasing emissions of gases including carbon dioxide from the burning of fossil fuels are causing damaging changes in temperature

and rainfall levels. Developed countries have agreed to negotiate legally binding reductions in their emissions at an international conference in Kyoto, Japan, in December.

Preparations for the Kyoto conference are being undermined by critics who argue that not enough is yet known about the problem to warrant radical solutions.

These opponents include industries which are either big consumers or producers of fossil fuels and the US Congress.

Michael Grubb, a member of the Intergovernmental Panel on Climate Change

(IPCC), another UN body researching global warming, urged politicians to "grow up and understand that we are dealing with uncertainty... Nobody in their right mind thinks uncertainty means do nothing."

Congressmen fear the US economy could suffer from any measures that are not shared with fast growing developing nations. US politicians including Mr Clinton are afraid of alienating motorists with any attempts to discourage fuel use by taxing it.

The European Union in contrast wants industrialised countries to agree a 25

per cent cut in emissions by 2010.

It argues that this will persuade developing nations to follow suit, as well as accept the industrialised world's responsibility for the bulk of the emissions so far.

But Congress, whose support is essential for any cuts agreed at the Kyoto negotiations by the Clinton administration, has even sought to cut funding for research into climate change.

"It's incumbent on us to put forward arguments why funds should not be cut, where money is best spent and why," said Mr Newson.

The IPCC has estimated that temperatures could rise by 1 to 2.5 degrees centigrade over the next century if the world carries on emitting greenhouse gases at the current rate.

But Mr Newson said scientists agreed that one important priority was to improve knowledge of regional effects of climate change. Its consequences could range from increased drought to more frequent flooding.

"We need to know whether it is going to be six degrees warmer in Britain, and two degrees cooler in Iceland," he said.

NEWS: WORLD TRADE

Daewoo to invest \$1bn in Algeria

By Roula Khalaf in London

South Korea's Daewoo group yesterday signed a memorandum of understanding with Algeria's army-backed government promising to inject the first sizeable foreign investments into the country's battered industrial sector.

Algerian officials said yesterday that the Daewoo delegation visiting Algiers this week, including chairman Kim Woo-chong, would invest up to \$1bn in sectors ranging from industrial vehicle production to hotels.

Daewoo's move will be the first significant inward investment in Algeria's non-oil and gas sector, and

marks a success for the Algerian authorities desperate to shake off Algeria's violence-ridden image and attract foreign investment.

Since the outbreak of the Algerian crisis in 1993, when the army cancelled elections which an Islamist party was about to win, the government has succeeded in attracting foreign investment into the heavily guarded oil and gas sector, which is sheltered in the desert and has largely been spared from attacks.

But much needed investment into productive sectors has been deterred by the seemingly endless violence. While a Daewoo delegation was negotiating with the

government this week, more than 180 people were reported killed, most in village massacres south of Algiers. Daewoo had one of its representatives assassinated in Algeria in 1994.

Oil and gas provides Algeria with more than 95 per cent of foreign exchange revenues, but contributes little to employment. Privatisation of Algeria's industrial sector, which accounts for 12 per cent of GDP, is essential to creating jobs in a country where the unemployment rate is more than 28 per cent. Last year, industrial production declined 4 per cent.

Daewoo officials in Algiers said the company was dis-

counting with the government the precise stakes it will take and the companies it wants to invest in.

But according to Abdelmajid Menasra, minister for industry and restructuring, Daewoo's investments will include the purchase of a majority stake in the loss-making state vehicle manufacturer now being restructured. The company operates at 40 per cent of capacity and its workforce is expected to shrink from 13,000 to 10,000. Officials say modernising the company will cost at least \$250m.

Daewoo also expressed interest in buying a stake in the state-owned electronics company and is looking into

cement production, house construction and hotels, said Mr Menasra. Daewoo aims to export 50 per cent of output.

"We need to make our industry competitive and we cannot do it on our own," said Mr Menasra. "The Daewoo initiative is an indication that Algeria can attract foreign investment and we hope this will lure others."

Daewoo's interest in Algeria dates to the early 1992, when the company was Algeria's first joint venture partner in the construction of the Hilton hotel, now 100 per cent owned by the south Korean company. Daewoo has also pledged substantial investments in neighbouring Morocco.

Genetic wheat ban eased by Egypt

By Mark Hubbard in Cairo

Egypt has modified a ban on imports of genetically engineered grain after intense pressure from exporters who had criticised the sudden ban when it was ordered last month.

A Ministry of Health decree in July had demanded that imports of grain, as well as soya beans and pulses, be accompanied by a certificate from their country of origin proving they had not been genetically altered.

The ban raised the prospect of widespread disruption to grain imports. Egypt imports around 6m tonnes of wheat worth \$1.3bn a year, accounting for 60 per cent of consumption, making it one of the world's biggest wheat importers. About 4m tonnes come from the US, 1m from Australia and the rest from France and Argentina.

The ministry has now modified the decree so non-genetically modified products no longer need a certificate, but genetically

engineered products which have been safely introduced in their countries of origin can be exported uncertified to Egypt.

The government has retained the right to inspect consignments which it suspects may not be correctly labelled.

The ban, issued at a time when fears that beef infected with BSE - or "mad cow" disease - had been dumped on the Egyptian market, marked the government's response to concern over food safety. Both the US and Australian officials have insisted that they neither produce nor export genetically engineered wheat.

"None of the wheat in the US is genetically engineered. But some corn and soya beans produced in Europe have become an issue between Europe and the US," said Dick Prior, regional director for the US Wheat Associates, in Cairo yesterday.

WORLD TRADE NEWS DIGEST

Cray argues dumping case

Cray Research of the US yesterday gave evidence to the International Trade Commission which is investigating Cray's allegations of dumping by two Japanese super-computer makers.

Cray argued that vector supercomputers were a distinct product that met specific demands and that a relatively small market size increases the impact of dumping practices. According to Cray, research and development by the world's four vector system manufacturers totals \$300m, while sales are \$700m-\$800m per year. Prices, they contend, must remain high to recover costs.

Japanese producers have doubled their vector super-computer market share in only three years. Cray argued that due to price pressures from its Japanese competitors, it had lost 9 per cent of its sales.

Fujitsu, one of the Japanese companies, argued that non-vector supercomputers could be viable substitutes, and denied that vector systems had a distinctive quality. Moreover, they argued that Cray sold its own non-vector supercomputers to weather forecasters in Europe at prices that were far below Fujitsu's.

Heather Bourbeau, Washington

AIRCRAFT SALES

Bombardier wins SAS order

Scandinavian Airlines System (SAS) has stepped up its fleet modernisation programme, announcing plans to acquire 15 commuter aircraft from Bombardier of Canada for SK2-50s (\$314m). The carrier, 60 per cent owned by the Swedish, Norwegian and Danish governments, said Bombardier had won the order against a rival tender from ATR - the joint venture between British Aerospace, Aerospaciale of France and Alenia of Italy - which had offered SAS its ATR turboprop.

Kurt Klönn, vice president of SAS fleet development, said they had taken options on a further 18 Bombardier Dash 8-400 aircraft, with the first due to enter service in July 1999. The order from SAS Commuter, the airline's regional subsidiary, augments plans to invest \$810m to upgrade the SAS fleet over the next five years. That investment will be dominated by an order for 41 short haul Boeing 737-400 aircraft.

Ole Pedersen, president of SAS Commuter, said the Bombardier turboprops would be used on domestic services in Sweden and on regional services out of Copenhagen. Although SAS has opted for the 72-seat version of the Dash 8-400, the carrier has won the right to switch to smaller 50-seat variants at a later date.

Tim Burt, Stockholm

SATELLITE ORDER

Arab company picks Hughes

An Abu Dhabi-based company said yesterday it had selected the US company Hughes as the preferred bidder in a deal worth up to \$1.2bn for a satellite system to extend mobile telecommunications throughout the Arab world.

Thuraya Satellite Telecommunications said its board decided to enter into final negotiations with Hughes out of three leading satellite manufacturers competing for the project. Also in the race were Aerospaciale, of France, and Lockheed Martin of the US. Thuraya said it will now go into a final round of talks with Hughes and expects to sign the deal by September 11.

Reuters, Dubai

Rising incomes driving up car sales in E Europe

By Kevin Dore,
East Europe Correspondent

New car sales in eastern Europe and the former Soviet Union are expected to rise strongly during the next five years helped by significant growth in real incomes in the region and by declining import tariffs.

Sales in east Europe are forecast to increase by 36 per cent by 2002 to 1.2m from 888,000 last year, while sales in the countries of the former Soviet Union are expected virtually to double during the same period to 1.6m from 821,000.

Markets in the former Soviet Union, which have much lower ownership levels than in east Europe, have "a real hunger for car acquisition," says a report by DRI/PlanEcon on the outlook for the east European motor industry. Sales in the former Soviet Union are expected to overtake sales in east Europe from 1998.

Investments led by Korean, German and US car-makers are under way in eastern Europe, where car production and the range of models produced are rising quickly.

Output in eastern Europe rose by 20 per cent last year

to 976,000 and is forecast to increase further to 1.5m by 2002. The main focus of investment is Poland, where Fiat of Italy and Daewoo of South Korea are already heavily engaged and General Motors of the US is planning to open a DM450m (\$245m) plant in Gliwice in southern Poland next year.

The GM plant will have an initial capacity of 72,000 cars a year, but could expand later to 150,000 cars a year.

Western carmakers' investment plans in the former Soviet Union remain "more cautious," says the DRI study. "The markets are more risky than in east Europe and are far less developed. Several of the smaller producers are struggling to survive."

The larger local carmakers including VAZ, GAZ and ZAZ have rescue plans in place, however, says the report, and output in these countries is also expected to rise to 1.5m in 2002 from 888,000 last year.

New car sales in east Europe have expanded rapidly in the last two years with growth of 35 per cent last year to 888,000 after an increase of 14 per cent in 1995. A further 10 per cent

increase to 976,000 is forecast for this year.

The expansion has been led by Poland and the Czech Republic, the two biggest markets in eastern Europe, with new car sales in Poland forecast by DRI to rise by 23 per cent this year to 458,000 following a 41 per cent increase last year.

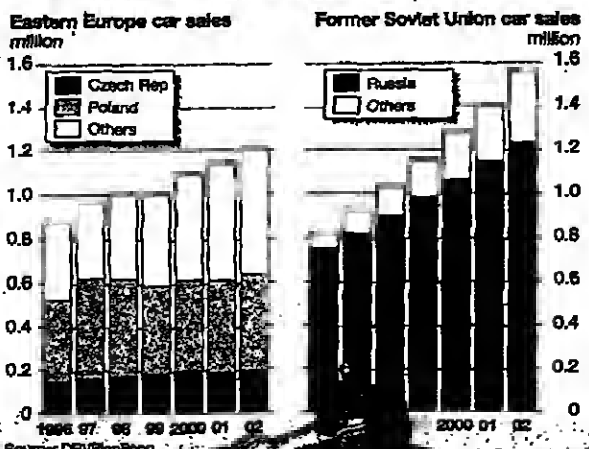
According to the study sales were spurred by the generally good economic performances of these countries, though growth has slowed in the Czech Republic this year, and by increasing access to consumer credit made by possible by falling inflation and lower interest rates.

Car import tariffs in Poland are declining steadily in line with the country's association agreement with the European Union and car sales in Poland are now matching the scale of some medium-sized markets in western Europe such as the Netherlands.

Rapid growth in Poland and the Czech Republic has masked problems in some other countries such as Bulgaria, where the prolonged economic crisis caused sales last year to fall to half the level of 1994.

The DRI report says that

The transition gets wheels



for western carmakers a production base in eastern Europe offers direct access to the fastest growing markets in Europe, and for an outsider such as Daewoo of Korea it also provides a base from which to attack western European markets.

Western producers can help to maintain competitiveness by building up low-cost production operations in the region. "The more advanced and stable coun-

tries in eastern Europe have now become the preferred choice over the traditional low-cost production centres in the west such as Spain and Portugal," says the study.

مركز البحث
الاجتماعي

Malaysia ends levy to help property market

Glut of accommodation and falling prices expected next year

By James Kynge
in Kuala Lumpur

Malaysia is today due to abolish a levy on foreigners' purchases of property in an attempt to support real estate prices before an expected glut materialises next year.

The move, announced yesterday, is one of the few concrete initiatives the authorities have revealed to remedy an economy suffering from a depreciating currency, falling stock values and a slowdown in consumer spending.

The levy of M\$100,000 (US\$66,000) is applied to foreigners buying properties worth more than M\$250,000 and was introduced in 1996 to curb speculation in a sector then thought to be overheating. Property company shares were unmoved by news of the levy's abolition yesterday, with the property index falling 15.39 per cent, or 0.84 per cent, to 1,825.25.

"Everyone knows there is a glut coming sometime next

year, so foreigners will probably wait a while until prices look more attractive," said one industry analyst. "This will not have a large effect on the market."

The government, which rejects widespread assertions that the economy is slowing, maintains that even if there is a property glut next year, it will be minor. Officials suggest otherwise. Office space in and around Kuala Lumpur totals around 38m

sq ft, but about 90 buildings are built, which will add another 34.7m sq ft, property consultants said. The annual take-up in the last few boom years has been about 3m sq ft a year.

The prices of high-end condominiums have already begun to fall, by as much as 15 per cent. Yet about 55 condominium projects are under construction in and around the capital. The 14m sq ft of retail space

is set to be dwarfed by another 20m sq ft planned to be completed over the next four years. Some shopping malls report poor business.

In the countryside outside Kuala Lumpur, earthmovers and cranes have already abandoned some half-finished residential sites. Banks have been slashing lending to property companies and raising provision against bad debts.

Analysts said the wider

economic problems induced by the property glut are unlikely to be as serious as in Thailand.

This is mainly because Malaysia's financial sector is seen as more robust and better regulated than its Thai counterpart.

Quotas on property purchases by foreigners will be maintained. The main ones stipulate that only 10 per cent of semi-detached and detached houses within any development can be bought by foreigners. The quota for condominiums is 20 per cent.

Japan to liberalise internet services

By Michiyuki Nakamoto
in Tokyo

Japan's telecoms authorities have liberalised international internet telephone services in a move expected to trigger competition and significantly cut the cost of making international phone calls from Japan.

The Ministry of Posts and Telecommunications said the liberalisation would enable telecoms service providers which do not own their own telephone lines to offer international call services using the internet on leased lines.

As a result of the ministry's deregulation, AT&T Japan, a subsidiary of the operator, will offer internet phone services which will cut the cost of making a call from Japan to the US by 78 per cent. Other service providers plan to offer internet phone services at significantly lower rates than at present.

The start of international internet phone services is likely to encourage incumbent carriers to lower their rates as well.

"On average, international phone call rates are expected to fall 15-20 per cent each year over the next five years" as a result of new entrants, such as the internet phone service providers, says Mr Paul Safenstein, analyst at Morgan Stanley Dean Witter in Tokyo.

Japanese international call rates are the highest in Asia and 2.5 times those of the US, he says.

Japan's international phone market has largely been restricted to the three main international phone operators and several smaller call-back service providers. Since Japan does not yet permit connection of leased lines to public lines at both ends, it has not been possible for service providers to lease an international line and offer services at cheaper rates.

As a means of further triggering competition, the ministry decided to liberalise international internet telephony ahead of plans to deregulate, by the end of the year, the international leased-line market, to allow the connection of leased lines at each end to the public network. This move is expected further to increase competition in the international market.

Meanwhile, Japanese domestic carriers, which are expected to enter the global market in coming years, are likely to increase pressure on existing international carriers.

HK land auction shows strong demand

By John Riddling
in Hong Kong

Hong Kong's first government land auction since it returned to Chinese sovereignty on July 1 showed strong demand for luxury residential property and continued confidence in the real estate sector, property developers and investment analysts said yesterday.

A luxury site at Repulse Bay on the south side of Hong Kong Island, which was the focus of attention, fetched HK\$5.55bn

(US\$717m), slightly higher than average forecasts.

Two small sites received bids at the top end of expectations.

Tim Bellman, director of Jones Lang Wootton, real estate agents, said the auction showed sentiment remained resilient following the transfer of sovereignty, and turmoil in regional currency markets. "The fundamentals have not changed: a rising population, increasingly wealthy, and a shortage of housing," he said.

Victor Li, deputy chairman of Cheung Kong, one of the territory's biggest developers, said the bidding showed strong underlying demand for property. He called on the government to release more land for development.

Cheung Kong was defeated in the contest for the Repulse Bay site by China Resources, another of the territory's big developers.

Some analysts were cautious about drawing broader implications from the sale, viewed by many as a gauge of confidence in the sector ahead of government plans to increase housing supply.

Hong Kong's housing shortage has been targeted as the top priority of the new administration. Tung Chee-hwa, Hong Kong's post-colonial leader, has promised to expand supply by 85,000 units a year, raising uncertainty on future price trends.

The land auction rallied the Hong Kong stock market, down sharply in the early stages of the auction when bidding for the Repulse Bay site was stuck below HK\$4bn.

The Hang Seng index, the main stock market indicator, closed down 13.27 points at

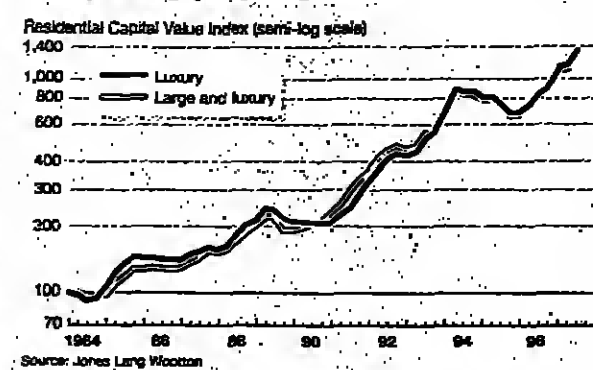
15,533.95, off its low of 15,294.65. The main signal from the auction, say analysts, was the strength of demand in the luxury sector.

Here, prices rose by more than 60 per cent between the end of June 1996 and the same date this year.

Yesterday's winning bid is equivalent to HK\$16.14 per square foot, underlining Hong Kong's standing as one of the world's most expensive property markets.

Reuters adds from Shanghai: A Japanese group yesterday defied a sagging Shanghai property market

Hong Kong property



and broke ground on a US\$630m skyscraper, to become the world's tallest building when finished in 2001. The Shanghai World

Financial Centre in the city's Pudong District will be 8 metres taller than the world leader, Kuala Lumpur's Petronas Towers.

ASIA-PACIFIC NEWS DIGEST

Chinese set congress date

China's ruling Communist party said yesterday it would open what will be its most important policy-making meeting in five years on September 12. Preparatory work for the 15th party congress had been completed, the Xinhua news agency said. The congress is important because it will set policy and elect the leaders who will rule China into the 21st century. The meeting, expected to last a week, will be preceded by about three days of working sessions, expected to start September 9.

China's ruling party traditionally shrouds such meetings in secrecy, even keeping the dates from the public, saying party affairs are no one else's business.

Party reformers and hardliners have been jockeying for position in the run-up to the congress. Jiang Zemin, China's Communist party chief, is expected to use the congress to win a vote of confidence for his bold plan to reduce the state sector in the economy. The party leadership has dragged its feet on the issue because of fears that bankruptcies would result in mass unemployment and social unrest.

Reuters, Beijing

MISSILE PROLIFERATION

N Korea pulls out of US talks

North Korea pulled out of talks with the US on missile proliferation that were to have started yesterday in New York and its delegation was heading home, US State Department officials said. They said the three days of talks had been postponed and it was not known when they would be held. The delay came one day after the department announced that the North Korean ambassador to Egypt and his brother, a diplomat in Paris, had sought and received asylum in the US.

The talks were to have dealt with US concerns over North Korean exports of ballistic missiles. Next month four-party talks between North and South Korea, the US and China are due to resume in Geneva to bring a formal end to the 1950-53 Korean war. In Pyongyang, a foreign ministry spokesman called for the two defecting diplomats, ambassador Jang Seung-gil and his brother Jang Seung-ho, to be extradited to North Korea to face trial. He called them "criminals".

Reuters, Washington

INDONESIAN MINE

Fund disbursement delayed

Freeport McMoran, the US natural resources group, is attempting to reduce tensions near its Grasberg mine in Irian Jaya, Indonesia, one of the world's biggest and lowest-cost copper producers, by holding back a second payment from a trust fund it set up to help local people. The fund is to distribute 1 per cent of Freeport Indonesia's adjusted gross revenue, or about \$15m for 1996.

Three church groups warned last week that, unless changes were made in the way the funds were disbursed, a second payment could spark tensions or tribal warfare. Two Indonesian tribesmen were shot dead last week in clashes provoked by disputes over the distribution of funds. A Freeport official said yesterday his company accepted that the fund disbursement mechanism should be reviewed.

Kenneth Gooding, Mining Correspondent

Treasurer faces rebuff in referendum on compulsory scheme

NZ pension row hurts coalition

By Terry Hall in Wellington

New Zealand's treasurer, Winston Peters, seems set to receive a rebuff in his bid to win popular support for a new compulsory pension scheme.

Polls show that 75 per cent of people intend to vote against what is known as the Peters Plan, a referendum on the plan to be held early next month. A large No vote could damage Mr Peters' position as treasurer, already under increasing pressure. Earlier this month he refused to apologise after being criticised by a commission of inquiry into the so-called "winebox" corporate tax avoidance.

Mr Peters rejected the report and seems likely to seek a judicial review in spite of repeated requests from the prime minister, Jim Bolger, to let the matter rest.

The issue is causing enor-

mous problems for Mr Bolger and is putting the National-NZ First coalition he leads under pressure. What is of particular concern is that Mr Peters is at loggerheads with powerful sections of the business community, which has traditionally been close to the conservative National party.

The pensions referendum is shaping up to be another significant test for the coalition. Many senior National party cabinet ministers have openly defied Mr Bolger by condemning the proposals.

The scheme would, in effect, abolish the taxpayer-funded scheme and replace it with a compulsory programme requiring all workers to set aside 8 per cent of their pay towards long-term saving until it amounts to a target of NZ\$120,000 (US\$77,500), which on retirement would be invested to buy an annuity from a private savings company.

The government would "top up" the amount where the target was not met but the scheme would not be government-guaranteed or index-linked.

The Treasury team that designed the scheme has won praise from international and local pension experts for producing a policy, which it is believed would ultimately lead to a stronger economy and lower government spending.

The result of the referendum on the proposal will be binding on the government. The pension was a key plank in the coalition agreement that saw the National party link with New Zealand First last December.

Initially Mr Bolger strongly endorsed the need for compulsory superannuation, saying that the present pay-as-you-go taxpayer-funded scheme was unsustainable given current demographic trends.

However, objections from senior ministers have forced Mr Bolger to retreat, apparently in the interests of party unity and amid increasing speculation of a leadership challenge, or even his own political survival.

Outright condemnation of the proposal had mainly centred on the argument that compulsory pensions would be unfair to women.

One of the fiercest critics of the plan among senior ministers is right-winger Jenny Shipley, whose popularity has since soared in opinion polls. She is tipped to succeed Mr Bolger as National leader as early as next year.

Mrs Shipley has supported the findings of an independent body, the Todd Committee, which says the present state-funded scheme is affordable with possible modifications such as raising the retirement age to 67.

China's PCs win back home market

Donghai computers sell faster than their foreign rivals, writes James Harding

In Liu Shangdong's small shop in Shanghai's "Computer Alley", the Hewlett-Packard printers are tucked away behind the door while the Donghai desktop computers are piled up and "ready to go".

"Personal computers are hot. The price of an HP, an IBM or a Digital computer is much higher than the Chinese brands," says Mr Liu, explaining why the Shanghai-made Donghai PCs are selling faster than their foreign rivals.

China's PC manufacturers are winning back the home market they surrendered to foreign computer companies in the early 1990s, underlining how quickly the Chinese consumer electronics industry has moved up the technology ladder.

For international PC producers, the rapid improvement of locally made, low-cost computers has made the battle for the Chinese PC market tougher, just as the PC business in China is becoming lucrative.

In the first half of this year, China became Asia's biggest PC market, overtaking South Korea as falling prices and soaring household demand have driven up purchases of PCs, according to Dataquest, the market surveyor. Official Chinese figures see the market exceeding 3m units this year, 50 per cent higher than the 1996 level.

While most foreign PC producers have seen turnover rise, or at least sustained by market growth, sales of Chinese-made machines have soared: The Ministry of Electronics Industry, which oversees the state-owned PC producers, says 820,000 domestic-brand personal computers were sold in the first six months of 1997, up 94.2 per cent on the same period last year.

Foreign companies seem to be losing market share. China Research Corporation, a domestic market analyst, calculates that IBM's share



PC in China

LCD factory in Guangdong

of the desktop market fell to 6.7 per cent in January-June 1997 from 7.9 per cent in the same period last year; Compaq's share slipped to 6.2 per cent from 8.2 per cent, with AST's down to 3.8 per cent (7.9 per cent).

Chinese companies such as Legend Group, the most successful PC producer in China, Founder, the company spun out of Beijing University, and the smaller Shanghai Computer Factory, which makes the Donghai range of PCs, are taking larger and larger slices of the market.

Legend has seen its market share rise from 8 per cent to 10.4 per cent in the same period, market research shows. "We are highly market-sensitive," says Wang Yan, at Legend's headquarters in Beijing, "so we started cutting the price of our products early and expanded market share."

"Legend's technology does not lag far behind our foreign rivals and we have a much better understanding of the Chinese market and

customers." Legend, a state-owned company set up in 1984 from within the Institute of Computer Technology at the China Academy of Sciences, says PC sales have grown from 100,000 units in 1994 to 215,000 last year. It forecasts sales of 400,000 in 1997. "We don't want special

government protection as there is little you can do about overseas competition. The only thing we can do is develop our products and make our own living," Mr Wang says.

Founder, the leading company in Mandarin Chinese electronic publishing, is also making inroads: PC sales accounted for one quarter of the group's HK\$1.4bn (US\$180m) sales last year; it plans to raise PC production to 80,000 in 1997. Shanghai Computer Factory intends to raise output from 20,000 units in 1996 to 40,000 this year and 100,000 in 1998.

Chief selling point of Chinese brands has been price. The Donghai "Sea Leopard" comprehensive desktop with 16Mb RAM and 1.2Gb hard drive, retails at Yn\$210 (R990), about a third cheaper than an equivalent Hewlett-Packard machine.

Cheaper local products have forced foreign brands to cut their prices. Acer of Taiwan announced last month it was cutting prices 20 per cent. Distributors in Shanghai say IBM and Compaq have cut prices by 10 per cent to attract local prices.

Fu Bin, IBM's general manager for PCs in Shanghai, says the company will

"follow the market price." IBM is "fighting a long-term war. We are not the leader on price, but the leader in technology and service," he says.

Mr Fu acknowledges "Legend has been gaining market share more quickly than IBM" but adds the rise of Chinese brands reflects two factors in the Chinese market.

First, the rapid rise in family and small-business users of personal computers. Mr Fu argues it is in this segment of the market, where high-cost, high-quality foreign machines barely compete, that Chinese producers are gaining market share, but at the expense of Chinese unbranded producers of "clone machines" rather than companies such as IBM.

Second, there is the state market. Chinese government offices, state-owned enterprises and airlines, post offices, banks and railways, "prefer to use national brands," says Mr Fu.

In his shop, Mr Liu agrees that state companies would rather buy Chinese-made goods. But it is price, rather than patriotism, which really attracts the local buyers, he adds.

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Ministers under pressure as failures in handling of the Montserrat crisis are admitted

Foreign Office unveils review of colonies

By David Wighton,
Political Correspondent

Robin Cook, the foreign secretary, yesterday announced a review of policy towards Britain's dependent territories, after admitting there had been failures in the handling of the Montserrat crisis.

Mr Cook said the aim of the review would be to reaffirm Britain's commitment to its 12 remaining colonies and their 180,000 inhabitants. "We have to make sure that there is no suspicion of

any neglect by Britain," he said.

Mr Cook said the time was right for a review following the handing over of Hong Kong and the problems thrown up by the Montserrat crisis. Although he insisted there had been no failure of policy on Montserrat, he added: "There has clearly been a failure of communication over the last few weeks."

The pressure on ministers over Montserrat increased yesterday after it emerged that they are likely to be

brought before a committee of the House of Commons to explain their actions.

Mr Bowen Wells, chairman of the international development committee, called for members to return to Westminster to launch an immediate inquiry.

His intervention came as Bernie Grant, a backbench Labour MP, flew to the island in an effort to "patch up" relations. Mr Grant, chairman of the all-party Caribbean committee, has been highly critical of the government. Yesterday, he

repeated his charge that comments made by Clare Short, the chief international development minister, had been "unhelpful". He said: "I think the megaphone diplomacy that was going on was totally uncalled for."

Mr Cook said he would lay out the conclusions of the review in a speech to the Dependent Territories Association in February.

The Foreign Office said the process "will look at any issues identified by the people of the territories who are those directly affected".

Tom Russell, UK representative for the Cayman Islands and chairman of the association, welcomed the review and Mr Cook's personal interest.

Following prime minister Tony Blair's moratorium on further policy reviews, the Foreign Office stressed that it was not describing the process as a "review" but as a "hard look at our policy".

Britain's intelligence services are to help fight the drugs trade in south-east Asia, Mr Cook disclosed as he arrived in Kuala Lumpur

yesterday. "There is evidence that the military government of Burma connives with the drugs trade," he told reporters travelling with him. "We will be using all our assets, including the work of our intelligence services, for whom work against the drugs trade becomes increasingly important as they free up resources from the end of the Cold War."

But he did not believe British personnel would be used in the drugs battle in all countries in the region.

Empire peoples are subjects but not citizens

Despite recent ridicule of the government for its bewildering number of policy reviews since the May general election, yesterday's announcement by Robin Cook, the foreign secretary, of a six-month review of Britain's relations with its dependent territories has met with broad approval.

There have been widespread calls for a re-assessment since the handover of Hong Kong in July, until then by far Britain's largest colony. The government's problems over its handling of the Montserrat crisis have increased pressure for a new look at the 12 remaining colonial or "dependent" territories, which have a total population of 180,000.

This week Menzies Campbell,

Status of French and Dutch territories may find favour, says David Wighton

foreign affairs spokesman for the pro-European Liberal Democrat party, wrote to Mr Cook urging a comprehensive review. Announcing the move during his trip to Asia, Mr Cook said now was the time for a reassessment.

In an attempt to reassure the territories he said the aim would be to produce a "custom-made solution" for each of them.

This wording prompted concerns

among dependent territories' representatives, although they enthusiastically welcomed the review as a whole. "To say he is looking for solutions suggests they are all problems," said one diplomat. "Most of them are not problems."

The diverse character of the territories is one reason the British government has found it tricky to organise its relations with them. They range from the relatively wealthy - Bermuda, Cayman Islands and Gibraltar - to islands such as Montserrat, which are poor and more vulnerable to natural disasters.

Those, again like Montserrat, which receive support under the aid budget have close relations with the Department for International Development, headed by

Clare Short. For the others, the most important relationship is a direct one with the Foreign Office.

After the election there was a suggestion responsibility for all the territories should be moved to the Department for International Development. This appears to have been dropped.

In his letter to Mr Cook, Mr Campbell called for the review to consider re-establishing a separate department within the Foreign Office "staffed by specialists" attuned to the territories' requirements. Mr Campbell added yesterday that the government's disarray over Montserrat underlined the case for such a department.

The other prime issue Mr Campbell said the report should look at was the question of citizenship.

Apart from those in Gibraltar and the Falklands, the territories' inhabitants do not have the right to British citizenship, with the people of St Helena having it taken away in 1981. All the inhabitants "are British subjects," he said, "but don't have the rights and privileges of British subjects."

But one territory representative suggested citizenship was not a priority for most territories. "What most would like is the right to travel through Europe without visas, just like people from French and Dutch overseas territories."

There would also be widespread support, the representative added, for following the French and Dutch model and calling them British overseas territories rather than "dependent territories".

Exports still growing despite strong pound

By Richard Adams
in London

The Office for National Statistics stumped the City yesterday with trade figures for June showing exports continuing to grow in spite of the strength of sterling.

The international trade deficit surprised commentators by shrinking in June. Excluding trade in oil and large erratic items - such as jewels and aircraft - the deficit was £974m. This was a £1.14bn shortfall.

The data reversed the previous trend in the trade balance, which had been for the deficit to worsen.

The biggest surprise came in the news that non-oil UK export volumes continued to grow faster than imports. The Office for National Statistics said that export volumes increased by 9.2 per cent in the year to June while imports grew by 8.1 per cent.

Exports have been predicted to see a steep fall for several months. Sterling has risen by 20 per cent against the currencies of its trading partners since last August, making exports more expensive and imports cheaper. Survey evidence from the Confederation of British Industry, the main employers' lobby, has put export orders at very low levels.

David Walton, an economist at Goldman Sachs investment bank, said: "I think it's hard to believe the trade numbers are as good

as they seem, given the survey data from manufacturers recently."

Mr Walton said that the seasonally adjusted figures may not reflect the true trade position and expects the deficit to worsen.

But Dharshini David at HSBC Markets said the figures showed no signs of the strong pound hurting exports. Ms David said: "There's every sign that exporters are cutting prices to maintain market share."

The ONS said export prices excluding oil fell by 1.7 per cent in the second quarter compared with the first quarter. Import prices also fell, by 1.2 per cent.

The headline figure for June saw the trade deficit widen by £217m to £950m. But analysts said the headline figure looked gloomy because of unusual patterns in oil and erratic items.

North Sea oil production usually gives a boost to UK exports of around £400m. But in June, because of increased domestic demand and repair work on North Sea rigs, the surplus was only £196m - around half its usual level.

There may be further good news when July's total international trade figures are published next month. The ONS reported that the UK's deficit in trade with countries outside the European Union fell from £713m to just £55m between June and July.

Samuel Brittan, Page 8



Changes to Army training mean that instructors will shoot less at recruits, John Reid, minister for the armed forces, (pictured with a recruit) said at the launch yesterday of a new training regime. The changes are a response to figures which show the Army under strength by 5,000 soldiers and high drop-out rates among those enlisted. Brigadier Andrew Cumming said the previous course had "overheated" recruits. "We were breaking people rather than building them up"

Scots assembly 'will be biased'

By James Buxton
in Edinburgh

The Labour government's proposed Scottish parliament would be dominated by the country's central belt and would discriminate against other parts of Scotland, Michael Ancram, the opposition Conservative party's constitutional affairs spokesman, warned yesterday.

Mr Ancram attempted to appeal to people in Scotland who live outside the heavily populated central belt to reject a Scottish parliament in the referendum on September 11.

He said that, even though the parliament will be elected partly by proportional representation, it would still be dominated numerically by Glasgow, Edinburgh and the rest of the central belt.

"Within that Labour-dominated central belt," Mr Ancram said, "there is the whiff of the nature of corruption and the pork barrel, and of the politics of fear, some of which have recently

suppurated through to the surface."

This is a reference to recent allegations of "sleaze" in Paisley, which led to last week's suspension by the Labour party of one of its MPs in the region.

Mr Ancram said he was worried by the decision of the Scottish national party to support devolution. "They see a Yes vote as the first real step on the road to independence for Scotland," he said.

In the 1979 referendum on devolution people living out-

side the central belt, in areas such as the Borders, Grampian and the Highlands, voted against constitutional change.

This time, however, opinion polls show all regions in favour of a Scottish parliament with tax-raising powers.

Yesterday it emerged that Tam Dalyell, the Labour MP who is a vigorous critic of his party's devolution policy, will join Mr Ancram and other anti-devolution campaigners in a TV debate just before the referendum.

Dublin politicians walk constitutional tightrope

Even-handedness must be shown in negotiations over Northern Ireland's future, writes John Murray Brown

Some taxpayers in the Republic of Ireland might be surprised to learn that they are paying for a study into why a united Ireland will never work.

The research funds provided to the Ulster Unionists - the largest pro-British party in Northern Ireland - are part of this year's £1.2m (£1.9m) budget provided by the Irish government to help parties prepare for next month's all-party negotiations on Northern Ireland's future.

The 1937 constitution of the republic declares the national territory to be the

whole island of Ireland. But, pending the reintegration of the national territory, laws passed by parliament apply only in the area of the Irish Free State, which did not include Northern Ireland.

The provision of funds to unionists is an illustration of a changed approach in the republic, as the government tries to demonstrate an even-handed approach and counter the traditionally obstructive image of unionism in the republic.

The government is committed, as a signatory to the Downing Street Declaration, to the principle that there will be no change in the status of Northern Ireland without the consent of the majority - in effect a unionist veto over a united Ireland.

But Irish politicians also need to keep in step with nationalist attitudes in the republic, which can sometimes seem more radical than those of the Roman Catholic community in Northern Ireland.

This was illustrated when Queen's University in Belfast, the Northern Ireland capital, ordered the disman-

Warning on 'decommissioning'

The Ulster Unionists, the largest pro-British party in Northern Ireland, yesterday warned that talks on the constitutional future of the region could not start until there was further progress on arrangements for "decommissioning" weapons held by paramilitary groups, David Wighton writes.

David Trimble, party leader, attacked as "an admission of failure" Tuesday's agreement between the governments of the UK and the Republic of Ireland about the setting up of a commission to oversee the handover. "All we have got is an agreement to establish a commission - a commission that has not even been set up yet and nothing has been decided on who will be part of it."

He said the process was being sabotaged by "people who don't want to see 'decommissioning' occurring and by extension don't want to see the talks succeeding."

Editorial Comment, Page 9

much more in common with Scots and Liverpudlians (people from the north-west England city of Liverpool) than they do with Dubliners.

Dubliners, he says, have an umbilical link with the home counties of southern England and the English town of Cheltenham - a reference to the annual racing festival patronised by thousands of Irish punters - rather than with the north-east of Ireland.

Nevertheless, the Irish government will play a big role in negotiations on the constitutional future of Northern Ireland, both as guarantor of the process and, through its commitment to change the Irish constitution to reflect a new settlement, ending its territorial claim.

Fianna Fail, the main government party and the guardian of constitutional Irish republicanism, is seen by many as the one party with the authority to deliver the changes. But Irish officials also insist that constitutional change must be part of a wider political package agreed by the parties.

UK NEWS DIGEST

Airliners missed crash by 200m

Two airliners came dangerously close to colliding over south-east England after an air traffic controller instructed the wrong pilot to descend, the Joint Airprox Working Group - which studies airproxes - said yesterday. It was a "very serious" incident, the group added.

The pilot of the higher of the two Heathrow-bound British Airways Boeing 757s spotted the danger and climbed to safety as the aircraft came within less than 200m of each other. The higher of the two planes was flying in from Paris with 165 passengers and seven crew. The other was carrying about 150 passengers from Geneva. The pilot who took evasive action last November's incident said there had been "a high risk of collision" and that one would have occurred if the weather over Biggin Hill had not been good.

The two planes were stacking as they waited to land. They were so close that the air traffic controller could not read their overlapping identity tags on his radar screen. The controller wanted the lower aircraft to descend, but mistakenly gave the order to the pilot of the higher aircraft, who descended for 30 seconds before climbing to safety.

"Had it not been for the excellent daytime visibility, which enabled the [higher] pilot to ensure visual separation was maintained, a more serious incident might have resulted," said the report. It added that the controller might have become confused as the aircraft were of the same type, operated by the same company and had the same call-sign prefix.

Two British Airways pilots suspended after a five-year-old girl was seen in the cockpit of a Heathrow-bound jet have been cleared of any wrongdoing, the airline announced yesterday. The men were investigated after allegations that the girl pushed buttons on the flight deck of a Boeing 757 from Nice.

The Civil Aviation Authority has been informed and made it clear that it is satisfied that this was an internal matter for British Airways only, the airline said. The two pilots were in control of the aircraft at all times and would never have jeopardised the safety of passengers.

Britannia Airways, the UK's biggest holiday airline, has also been carrying out an internal inquiry. The airline suspended two pilots after the wife of one of them was allegedly seen in one of the pilot's seats on a flight last month. A decision is expected next month.

DRINKS INDUSTRY

Five 'alcopops' are withdrawn

Five "alcoholic soft drinks" are to be withdrawn from sale following criticisms by the Portman Group, the industry watchdog, over unacceptable marketing practices. Eight other "alcopops" are also to be renamed or repackaged - in most cases following complaints that they were targeted at under-age drinkers.

The Portman Group, which is funded by the drinks industry, said the prompt action by all 11 companies, which had broken its voluntary code demonstrated the success of self-regulation.

The five drinks to be withdrawn include Allied Domecq's Barking Frog and the J Sainsbury store chain's own-brand alcoholic lemon drink. Both were ruled to have used images likely to appeal to under-18s. The makers of the alcoholic milk drink Moo, which caused uproar when it was launched in July, have agreed to change its name to make it less appealing to under-18s. Other products such as Cott Europe's Vixen and Welsh Distillers' Raw Passion were criticised for linking their products to sexual success or prowess. Alcohol Concern said it was encouraged by the response, but suggested that many of the companies would have withdrawn the drinks anyway on commercial grounds.

John Willman

OVERSEAS DEVELOPMENT

Cashflow problem hits aid group

A cashflow problem has forced British Executive Service Overseas, the charity which last year sent more than 600 senior volunteers on aid assignments, to reduce its activities. Beso has expanded rapidly in recent years, providing developing and former eastern bloc countries with advice on privatisation, restructuring, financial services and administration.

However, the charity said it had underperformed recently in raising donations and received less or was subject to delays in receipts from other funding organisations, such as the European Commission. Mr Peter Smith, chairman of Beso's finance and general purposes committee, said there would be a "substantial" reduction in the number of assignments in the current year. Mr Smith said there was "no crisis" and stressed that the charity's finances had been put back on an even keel, with a small surplus expected at the end of the current financial year. Beso's annual budget is about £2m (£3.26m) and its biggest stakeholder is the UK Department for International Development.

Andrew Bolger

STATE HEALTH SERVICE

Minister orders 'rebranding'

Frank Dobson, chief health minister, has ordered a "rebranding" of the state health service in an attempt to redress a process of fragmentation in the last decade. Mr Dobson is concerned that the Thatcher government's health reforms of the 1980s diluted the impression of a truly national service by creating scores of semi-independent trusts.

Mr Dobson wants all health service organisations to include the service's new logo on their signs and stationery. The exercise will coincide with government plans for a nationwide celebration of the 50th anniversary of the foundation of the service next July. The government intends to mark the anniversary with a series of events drawing attention to the fact a Labour administration set up the service.

George Porter

E.COLI OUTBREAK

Bathroom catering business closed

A catering business run from a converted bathroom was closed by magistrates yesterday in Birmingham, the second largest city in England. It was the second catering business in two days to be served with an emergency ban by magistrates in the city. Officers described the premises as "filthy and dirty" with some fittings "incapable of being cleaned thoroughly". The business was inspected because it provided chaps for a wedding feast this month at which an outbreak of e.coli is thought to have arisen from infected lamb.

Two four-year-old victims, who may have eaten infected food brought home from the wedding, could face a lifetime of kidney problems. The boy and girl are expected to recover from the food poisoning, but doctors fear their kidneys may be beyond repair.

INTERNATIONAL SURVEY

London hotels 'most expensive'

London's hotels are the most expensive in the world, according to a global survey of prices and earnings by UBS (United Bank of Switzerland). It says the cost of an overnight stay in a London hotel exceeds \$400 compared with a global average of \$270. However, London's restaurants offer good value compared with those in Asian cities and in Moscow. Overall, London was the world's ninth most expensive city in a top 10 led by Tokyo and dominated by Scandinavian cities.

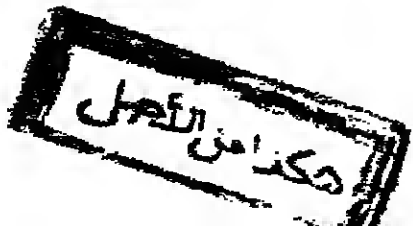
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Cinema/Martin Hoyle

Naked hokum

Two fairy stories this week, one American, one British, each very much a product of its culture. The Americans take paranoia as a starting point to put over that well-known message: just because you're paranoid does not mean that everyone isn't out to get you. The English one focuses on underdogs, watches them muddling through a ludicrously unlikely ambition, and allows them a brief, heartening triumph. Both films are improbably cheerful, gloss over the implied ugliness of plot and setting, and require a mine field of salt to be taken with their happy-endings.

Conspiracy Theory deals with a New York taxi-driver obsessed to the point of nuttiness by "them". The Vietnam War was the result of a bet between Howard Hughes and Aristotle Onassis; the new hundred-dollar bills have tracking devices planted in them; the sperm of Nobel prizewinners' fathers is stored in deep-freeze conditions under the skating rink. Jerry Fletcher makes the average London cabby sound like Bertrand Russell for clarity and wisdom.

Mel Gibson plays him with a light touch, so that the scenes between Jerry and the lawyer he worships from afar (and, more disconcertingly for her, close up), take on a faintly zany comic edge. Neither Gibson nor Julia Roberts is up to the Dick Powell-Rosalind Russell level of delivering cynicism-laced froth; but then Brian Koppelman's script takes a vicious and typically late 20th-century turn: in his semi-coherent babbling Jerry hits on some sort of truth. In fact Jerry is not entirely what he seems. One car chase, kidnappings, truth-drugs, and references to the CIA, FBI and sundry other portentously-initialised institutions.

John Schwartzman's camera-work turns New York into a darkly gleaming, strobe-streaked nightscape whose thin smoking crust covers heaven knows what

seismic nightmare of world destruction. Richard Donner's direction veers too often between sending up American paranoia and giving it its head - not to mention sending up the send-up and the genuine menace - resulting in a multi-layered film not quite certain which weight to punch at.

But Gibson, engagingly lined, initially convincingly bonkers, and touching in his gallantry (a nod to another, the other, famous filmic taxi-driver), plays well with Roberts, as lustroous and dewy as ever, with a new thread of steel running through her performance.

CONSPIRACY THEORY
Richard Donner

THE FULL MONTY
Peter Cattaneo

At two hours 20 *Conspiracy Theory* is 20 minutes and a couple of twists too long, but entertaining tosh, hugely enjoyable hokum, all the same.

And not much more unlikely, when you come down to it, than *The Full Monty*. An unexpected runaway success in America, this gritty tale of a group of the Sheffield unemployed becoming male strippers is perhaps seen as a blessed antidote to Merchant-Ivory or Hugh Grant versions of Englishness. The cinema seems to lag behind the other media in subject matter, however; male strippers have provided the theme for both stage plays and, in the last few years, a television drama with some similarities to *Monty*.

The full Monty apparently means complete nudity, recklessly promised by the ill-assorted group of self-taught strippers. Skinny, fat, young, old, well-endowed or ashamed of their bodies, they look

ominously like the cast for your average strenuous whimsy about lovable salt-of-the-earth horny-handed sons of toil.

The publicity comes loaded with significance - about how we see gender, men's changing role, the indignity of unemployment, according to the producer, one Umberto Pasolini. We can but wonder in wild surmise what another Pasolini might have made of male strippers in Sheffield. Or then again, perhaps not.

Like *Conspiracy Theory*, the film, as directed by Peter Cattaneo and photographed by John de Borman, adds a gloss to the surface of what should be ugly. They all have comfortable homes; nothing is really dirty. An eastern European watching this movie would want nothing better than to be unemployed in Yorkshire.

By the same token, aspects of the plot that are serious one moment (Carlyle's small son being involved in rehearsing the strip to the suspicion of watchful social services; a temporarily-employed security guard fleeing his job with stolen coats) are abandoned the next. If the film fails to follow through on issues it initially sets up as serious, why should we be bothered?

The acting carries it. Robert Carlyle leads the troupe, a far cry from his psychopath in *Trainspotting* and even further from television's over-whimsical Hamish Macbeth. As the hard-barell afraid of losing his wife's love, Mark Addy is true and moving, as is Lesley Sharp in their scenes together. And the film climaxes with that much-heralded dance sequence with such infectious good humour that it's hard not to cheer for the ill-assorted hoofers - shades of the night-class terpsichoreans in *Stepping Out* on stage, or Dennis Christopher winning the bicycle race in *Breaking Away*.

You leave the cinema on a wave of good will. That, as Miss Prism noted, is what is known as fiction.



Entertaining paranoia: Mel Gibson and Julia Roberts in 'Conspiracy Theory'

Ian Shuttleworth reviews comedy and drama on the Edinburgh Fringe

Witty visuals and verbals

It cannot usefully be called "mime" or "clowning", and the term "visual theatre" may misleadingly suggest spectacle rather than sight-gags. Whatever it is, though, this strain of comedy has become a more and more abundant crop, with several worthwhile blooms in evidence on this year's Fringe.

The Spanish company Yllana, in *Glub Glub!* (Gilded Balloon, venue 38) are closest to all-out mime, relying on minimal props, minimal verbals (and those mainly nonsense) and a lot of highly skilled shape-throwing. The show contains some inspired moments, but much of the business seems a bit too easy, and the "theme" of sailors and the sea hangs loosely upon the sketches without imposing any sense of narrative.

The latter problem also affects Peepolykus, only more so. *I Am A Coffee* (Pleasance, venue 33) shows every sign of having a "plot" simply shucked onto a string of sketches; the convoluted story of a time-travelling postman being abducted by a pair of fish-mongers whilst trying to

deliver a postcard to the Pope is not exactly coherent. The Peepolykus company is immensely cheerful, but - especially when trying out new material - sometimes its members fall prey to the trap of responding too much to each other and not enough to the audience.

Hoiopoloi mines a gentler vein in *Dead On The Ground* (Pleasance), the story of a man snatched prematurely by his supervising angel and their subsequent attempts to conceal this administrative cock-up from the heavenly big cheese. The company has made a positive decision to work in a particular mood and do it well, but the frenzy of Edinburgh does nothing to alleviate a utopian "so what?" feeling.

Rejects Revenge has been gaining in stature over the last couple of years, and *Daddy Frank* (Pleasance) lives up to all expectations. Wordier and less frenetic than the company's more recent shows, the tale of a pair of incompetent removal men

attempting to strip a haunted house before it crumbles over a cliff provides plenty of fine opportunities for both verbal and visual humour. The trio of Rejects exude an air of Englishness at its most appealing, of cricket on the green and amiable twitdom, and currently occupy the silver medallists' podium in the visual comedy field.

The unchallenged laureates of the form, though, remain The Right Size. In 1995, *Stop Calling Me Vernon* was one of the hottest comedy tickets of the Fringe, and with *Do You Come Here Often?* (Stella Artois Assembly, venue 3) they have surpassed themselves. Basing their story on a true incident of being trapped in a bathroom, performers Hamish McColl (the knowing, neurotic, daft one) and Sean Foley (the innocent, bemused and even daffier one) generate an hour and a quarter of simply glo-

rious business with comedy beads, a mobile toilet bowl and competing addresses to the audience, who laugh so long and hard that inevitably they are often still guffawing when the next gag comes along. This is not so much The Right Size's breakthrough as its apotheosis. The remainder of the show's Edinburgh run seems already to be sold out; if so, sell a kidney for the where-withal to bribe the front-of-house staff to admit you.

Even classical music has begun to take on board the visual-comedy form. At the Traverse (venue 15), the *gogmagogs gigagagn* features a string septet playing works ranging from Mike Westbrook to Palestinian Said Murad whilst impersonating a cinema audience, a Day of the Dead celebration or even (in darkness, their bows picked out by ultraviolet light) a school of fish. They still seem more of a novelty act than a full show in their own right, but are gaining in assurance all the time and occasionally capable of astonishment. Now, put them in a shower cubicle with The Right Size...

All shows run to August 30 (0131-226 5138).

Heart and Massage

Caryl Churchill's double bill *Blue Heart*, presented by Traverse, begins with a series of Ayckbournian timeslips. In *Heart's Desire* a family await the arrival home of their daughter from Australia; the same opening lines - "She's taking her time", "Not really" - are heard time and again until they, and the accompanying movements, acquire a comedy simply through repetition.

Gradually it becomes apparent that we are watching scenarios running through the heads of each of the characters: the exchanges and events they dream of occurring during the mundane business of waiting. Some scenes betray an authoritarian bent, some a desire to upset the family applecart, some are simply bizarre - without giving too much away, this is probably the first time Max Stafford-Clark has ever directed an emu. Finally we see the "authoritative", "objective", "reality" of the scene in its entirety.

After the interval, *Blue Kettle* also concerns clashing realities and the arbitrariness of events, albeit in a

more sombre mode. Jason Watkins' Derek, for reasons best known to himself, collects mothers, pretending to be the son they gave up for adoption four decades ago. As he deals in turn with a clutch of would-be parents and also with his disapproving girlfriend, occasional words of dialogue are replaced by either "blue" or "kettle". The frequency of replacement gradually increases, the words are cut down to single syllables or even single phonemes, until the final exchange - when the truth is revealed to one of his collection - is conducted almost entirely in this glibberish; we understand what is going on from the speaker's emotions and cadence patterns alone. The double bill is entertaining and intriguing, and cries out to be described in Edinburgh shorthand as "off-beat".

At Stella Artois Assembly, meanwhile, Steven Berkoff continues his assimilation into the heritage industry. He may don a tight little frock and suspenders for *Massage*, but nothing else has changed. The England he writes about is simply the underside of that imagined by John Major - more squalid than the vision of warm beer and cricket on the green, but equally mythical. (For heaven's sake, his backdoor even includes a huge cartoon of Thatcher, and at one point his co-performer Barry Phillips inveighs against rampant inflation - hardly up-to-the-minute stuff.)

His staging also betrays a sloppiness of theatrical vision: the same kitchen may be on- or offstage in the same set of scenes, as happens to be convenient, and Berkoff as "Mum" still drapes his housecoat left over right, wearing it as a man. His dramatic ode to the hand-relief industry is a brief sketch which, with digressions and irrelevant Berkoffian set-pieces, wails over a full 90 minutes. Still, it is solid, traditional Berkoff, the knightly heck-tons.

Both shows until August 30 (0131-226 5138).

Edinburgh Keyboard skills

Two piano recitals at the festival last week provoked comparisons. In the big Usher Hall, for which her tone is barely big enough, Maria Joao Pires played a programme quite different from her advertised one. In the little Queen's Hall young Laif Ove Andnes delivered exactly what he had promised, a notch too loudly for the available space - but bluntly, almost puritanically concerned with exposing the music whilst absenting himself from notice.

That was very satisfying in his two Haydns, the E-flat sonata of 1790, and the strange, spare C-sharp minor one from ten years earlier. Using scarcely any pedal, Andnes recreated 18th-century manners on his large modern Steinway. Definiteness of intention was the order of the day: no personal whims, no fantasy, just exact and thoughtful playing, and robustly incisive.

He allowed himself more overt virtuosity in Liszt, the second Ballade and the late, obscure 4th "Mephisto" Waltz and 4th *Valse oubliée*; and also in Beethoven's patchy G minor Fantasia, which needed all Andnes's digital brilliance to keep it alive. As for the E-flat sonata, known as "Les Adieux", Andnes made it gripping from its doleful prelude to the *révérencieux* that celebrates the homecoming of Beethoven's patron, Archduke Rudolph.

In sum, this was a proper festival programme, not a run-of-the-mill pianistic display, by a notable young artist who has no "side" at all. The programme that Pires suddenly decided to offer was not quite run-of-the-mill - but it showed off her powers much less well than her originally announced menu would have done.

We expected to hear Schubert's lovely A major sonata D.664, in which her lyrical spontaneity should have been ideal, and some Fauré nocturnes, and one of Bach's French Suites. Instead she chose to play Beethoven's marvellous op. 109 sonata, which Pires rendered as a charming water-colour, and later an "Appassionata" that sported many good ideas in a lightweight mode but fizzled out during the final *presto* coda. Here a tired fingered mush. Neither strength nor stamina are really among her virtues.

Between the sonatas she tucked in the four Impromptus (D.899) of Schubert, and the much-loved *Moments musicaux*; artfully, winningly played, if not to the taste of sober Germanic purists. As a whole, nevertheless, this substitute programme was a let-down. We had a right to expect more from this often inspired pianist; she ought to advertise future programmes as "provisional", or "subject to the artist's whim".

David Murray



BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Eilahu Inbal in works by Korngold, Ligeti and Beethoven, with cello soloist Peter Bruns; Aug 28, 30
● German Symphony Orchestra of Berlin conducted by Vladimir Ashkenazy in an all-Beethoven programme, with piano soloist Louis Lortie; Aug 30, 31

EDINBURGH

Edinburgh International Festival Tel: 44-131-473 2000
CONCERTS
● Bank of Scotland Fireworks Concert: Brad Cohen conducts the Scottish Chamber Orchestra in the traditional Festival finale. The programme includes Shostakovich's Festival Overture, and works by Handel and J. Strauss. If you can't get a ticket, try the view from Calton Hill; Aug 28
● Bach Organ Works: organist

Peter Hurford plays a series of 15 concerts at Greyfriars Kirk. The performances are Tuesdays to Saturdays at 5.45pm. On Thursdays he is joined by singers of the Dunedin Consort; to Aug 30

● Black on White: by Heiner Goebbels, whose jazz, rock and world music-influenced compositions have won him European celebrity, although he remains a relative unknown in the UK. This piece, subtitled *Music Theatre for Eighteen Players*, is performed by Ensemble Modern, with sets and lighting designed by Jean Kalman, costumes by Jasmin Andree; at the Royal Lyceum Theatre; Aug 29, 30
● Archive Recordings: as part of the Festival's 50th birthday celebrations, the Music Performance Research Centre at the Barbican Library has loaned a selection of archive recordings of concerts given during the early years of the Festival, which can be heard Mondays to Saturdays at the Queen's Hall from 11 to 30 Aug. Featured artists include Leonard Bernstein conducting the LSO on 28th. Tickets cost £2, most recordings last 45 minutes and begin at 2.15pm (1.30 on Sats)

DANCE

● Nederlands Dans Theater II: Tears of Laughter, choreographed by Jiffi Kylian. Sister company of Nederlands Dans Theater I, formed for mature dancers. Programme of five separate works; at the Edinburgh Playhouse; Aug 28, 29, 30

THEATRE

● The Cherry Orchard: by Anton Chekhov. After the success of last year's Uncle Vanya, Peter Stein returns to Edinburgh with Chekhov's most famous play, in a Salzburg Festival production seen there in 1995 and 1996. Jutta Lampe is Ranyevskaya. Performed in German with subtitles; at the Edinburgh Festival Theatre; Aug 28, 29, 30
● The Cocktail Party: by T S Eliot. Premiered at the 1949 Edinburgh Festival, this Royal Lyceum Theatre Company production of Eliot's drawing room comedy seeks to illuminate its hidden depths; the director is Philip Frank; at the King's Theatre; to Aug 30

LONDON

CONCERTS
BBC Proms, Royal Albert Hall Tel: 44-171-589 8212
● BBC Singers: conducted by Bo Holten in a programme which includes works by Brahms and Schoenberg; Aug 28
● BBC Symphony Orchestra: with conductor Tadaaki Otaka performs Dvořák's Overture "Carnival", Lutosławski's Cello Concerto - with principal cellist Paul Watkins - and Brahms' Symphony No. 1 in C minor; Aug 30
● Esa-Pekka Salonen: conducts the Swedish Radio Symphony Orchestra in works by Sibelius, Britten and Stravinsky; with soprano Dawn Upshaw; Aug 31
● John Dankworth: conducts the Dankworth Sextet, BBC Big Band and BBC Concert Orchestra in a

joint 70th birthday tribute to Gershwin and Duke Ellington, with Cleo Laine; Aug 29
● Leipzig Gewandhaus Orchestra: Alfred Brendel performs the Piano Concerto in A minor Schumann wrote for his wife. The programme includes works by Wagner and Mendelssohn and is conducted by Sir Neville Marriner; Aug 28

LUCERNE

International Festival of Music Tel: 41-41-210 3080
CONCERTS
● András Schiff: recital of Schubert piano sonatas; at the Union; Aug 28
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Mendelssohn. With the Slowakischer Philharmonischer Chor; at the von Moos-Stahl-Halle; Aug 31
● Philharmonia Orchestra: conducted by Claus Peter Flor in works by Tchaikovsky and Shostakovich; with violin soloist Julian Rachlin; at the von Moos-Stahl-Halle; Aug 30

OPERA

● Jakob Lenz (1777/78): by W. Rihm. Performed by the Opernensemble und Chor des Luzerner Theaters and the Luzerner Sinfonieorchester AML. Conducted by Peter Kuhn in a staging by Reto Nickler; at the Luzerner Theater; Aug 28, 30

PARIS

EXHIBITIONS

Jeu de Paume Tel: 33-1-4703 1250
César: major retrospective of one of the most important French sculptors of the twentieth century. Tracing the different approaches and materials with which he worked, the exhibition includes almost 500 objects; to Oct 19

Musée National d'Art Moderne, Centre Georges Pompidou Tel: 33-1-4478 1233
Fernand Léger: retrospective of the early modernist, who emerged from the Cubist revolution around 1910 to move towards abstraction. His experiences in the war and socialist principles led him back to figurative painting. The exhibition will travel to Madrid and New York; to Sep 29

SALZBURG

Salzburg Festival Tel: 43-682-844501
CONCERTS
SWF-Sinfonieorchester Freiburg: and the Edinburgh Festival Singers conducted by Michael Gielen in works by Holliker and Kurtág. With violin soloist Thomas Zehetmair; at the Grosses Festspielhaus; Aug 31

OPERA

● Boris Godunov: by Mossorgski. Conducted by Valeriy Gergiev in a staging by Herbert Wernicke. Samuel Ramey sings the title role. Cast also includes Philip Langridge. With the Vienna Philharmonic, the Konzertvereinigung Wiener

Staatsopernchor and the Slowakischer Philharmonischer Chor Bratislava; at the Grosses Festspielhaus; Aug 30
● Die Entführung aus dem Serail: by Mozart. New production. Conducted by Mark Minkowski and directed by François Abou Salem with designs by Francine Gaspar. With the Mozart Orchestra Salzburg and the Konzertvereinigung Wiener Staatsopernchor; at the Residenz; Aug 28
● Die Zauberflöte: by Mozart. Christoph von Dohnányi conducts a new production by Achim Freyer. With the Vienna Philharmonic and the Konzertvereinigung Wiener Staatsopernchor; at the Felsenreitschule; Aug 28
● La Clemenza di Tito: by Mozart. Conducted by Gustav Kuhn, directed by Ursel and Karl-Ernst Hermann and designed by Karl-Ernst Hermann. With the Camerata Academica Salzburg and the Konzertvereinigung Wiener Staatsopernchor; at the Kleines Festspielhaus; Aug 29, 31

WASHINGTON

EXHIBITIONS
National Gallery of Art Tel: 1-202-737 4215
Sculpture of Angkor and Ancient Cambodia: Millennium of Glory. Around 100 works dating from 6th-16th centuries make up this exhibition of Khmer sculpture, the first of its kind in the US. Previously seen in Paris, the show will travel to Japan; to Sep 28

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Angola in peril

The world is losing patience with Angola, and understandably so. Five months after a government of national unity was inaugurated in Luanda, the country appears to be reverting to civil war. The longstanding rivalry between the MPLA-led administration of President José Eduardo dos Santos and Jonas Savimbi's UNITA movement is straining the settlement reached in Lusaka in 1994 to breaking point.

The MPLA is not without blame. The overthrow of former President Mário Soares by Sá Carneiro deprived Mr Savimbi of his main ally and a valuable rear base. Mr dos Santos could not resist the temptation to attack UNITA strongholds in an attempt to establish its military supremacy. But the burden of responsibility for the current crisis rests with Mr Savimbi, who has regularly flouted the peace accord, holding back thousands of troops from a UN supervised programme to create a national army.

After months of frustration, the UN is threatening sanctions against UNITA, including bans on flights into territory it holds, travel restrictions on its leaders, closure of its offices in Europe and North America, and freezing of bank accounts.

While worth applying, they should go in tandem with renewed efforts to implement the peace accord. Sanctions are unlikely to be enough to persuade Mr Savimbi, a seasoned

military campaigner who shrugged off an arms and oil embargo imposed by the Security Council in 1993, to abide by the Lusaka accord. Regional leaders such as Zimbabwe's Robert Mugabe should help the process.

In order to win more time for the negotiators, the UN must also agree to extend the mandate of the 6,000-strong UN force assisting in the implementing of the pact. Withdrawal of this force would almost certainly lead to renewed civil war.

The UN is rightly concerned about the cost of the mission which has averaged some \$26m a month since early 1995. The time has come, however, for the UN to call on Angola to pay a substantial share of the bill. The MPLA runs an oil sector which produces 715,000 barrels a day, while UNITA controls much of the diamond fields. But instead of funding recovery of a country devastated by nearly three decades of war, the receipts pay for two armies.

The MPLA should be asked to contribute to the cost of the UN operation, through a levy on oil receipts. Once the Lusaka accord - based on sound power-sharing principles - is fully implemented under a stable government, UNITA, too, should be required to pay an appropriate share. This would be a small price to pay for peace, and would show whether the two parties are sufficiently committed to the accord.

Aubry's jobs

The clearest sign yet that the French government's holiday is over came on Tuesday when Louis Vianney, leader of the Communist-backed union CGT, declared the striking season open. Uncomfortably dependent on Communist MPs, the Socialist-led coalition is under mounting pressure to deliver on its pledge to fight unemployment. It will not find it easy.

Last week, details of the government's plan to create 100,000 public sector jobs in 1998 were outlined. Martine Aubry, the employment minister, must now explain how she intends to reduce working time to 35 hours a week from the present 39.

The programme, which will be negotiated between unions and employers in September before going to parliament, is still on the drawing board. But leaks suggest that reductions will be phased in over three years and be accompanied by higher corporate taxes on overtime, as well as tax reductions for companies switching to 35 hours ahead of the deadline.

This plan primarily aims at cutting the unemployment statistics. It might even do so, provided negotiators concentrate on making working time more flexible, instead of merely reducing it. This means moving towards annualisation of working hours and ensuring that agreements are reached by individual companies,

rather than whole industries. Unfortunately, there is a strong possibility that the programme will make things worse. Reducing working time, without cutting total wages, would increase France's already high unit labour costs. In that case, the switch to 35 hours - or 32, as the CGT is requesting - would not only fail to reduce unemployment, but would lower aggregate hours worked in the private sector.

Even if wages were lowered, the proposal could reduce labour market pressures and so worsen the trade off between unemployment and inflation. That could ultimately result in even lower output and employment than before.

The fundamental objection to Mrs Aubry's scheme, however, is that it rests on the deeply pessimistic assumption that there is a fixed quantum of work, which it then tries to spread more evenly across the population. This is social engineering masquerading as economic policy. At best, the impact on output and aggregate hours worked will be nil; at worst, it could lead to a drop in total output, hours worked and even in aggregate employment.

To avoid making a bad situation worse, the government should at least try to moderate the most unreasonable demands of the unions, even if this risks another winter of discontent.

Ulster hopes

The "quarantine period" set by the UK government after the IRA announced its ceasefire on July 19 expires this weekend. Today or tomorrow Mo Mowlam, the Northern Ireland secretary, will say officially whether she finds the ceasefire sufficiently "genuine in word and deed" to allow Sinn Féin, the IRA's political wing, to join the all-party talks which resume on September 15.

All the signs are that she will so find. In sharp contrast to the previous ceasefire of 1994-96, British officials have found no evidence that terrorist units are still watching security personnel or other potential targets. Better still, the IRA has stopped the brutal "punishment beatings" through which it used to maintain control of its local strongholds.

That shows, once again, that it is a highly disciplined movement. The leadership which decided on the ceasefire has the power to enforce it, and is clearly determined to meet the conditions set by London for joining the all-party talks. One reason for this is that it has already secured a crucial concession: the British government no longer insists, as in 1995, on the "decommissioning" of some IRA weapons before talks start. In fact that concession was made before the last ceasefire ended, when John Major accepted the Mitchell report -

though he managed to obscure the fact by announcing elections to a largely meaningless "forum" at the same time. The Mitchell report requires participants in the talks to commit themselves to total disarmament of all paramilitaries, verified by an independent commission, and to forswear any attempt to influence the talks by use or threat of force, but not to implement decommissioning before talks start.

Unionists are not happy about this. Ian Paisley's Democratic Unionist party, indeed, has made clear that it will not sit down with Sinn Féin on September 15 in any circumstances. More important, however, is the attitude of the larger Ulster Unionist party. Its leader, David Trimble, has tried to finesse the issue by suggesting "proximity" rather than face-to-face talks. Sinn Féin has rejected this.

This is shadow boxing. Mr Trimble would look foolish if he insisted on sitting in the next room when the talks resume; but it is not remotely credible that Sinn Féin would boycott the talks because he did so. The truth is that the talks, while far from being assured of success, can now proceed in a much more hopeful atmosphere than anyone dared to imagine six weeks ago. No politician who stays away from them can expect his interest in peace to be taken seriously.

Kohl's simmering cauldron

Peter Norman argues that Germany's government is showing signs of the tiredness that gripped Britain's Tories

Germany's parliamentary summer vacation is traditionally a time of mischief-making when politicians, pale without the sun of publicity, seek out equally underemployed journalists to promote themselves and spike the aspirations of rivals.

This August, through an extraordinary combination of misadventure and miscalculation, Theo Waigel, Germany's long-serving finance minister, has occupied centre stage of what is known as Bonn's "summer theatre". By first calling for a cabinet reshuffle and then appearing to admit that he is weary of his job, Mr Waigel has put himself in the firing line and greatly weakened the already enfeebled three-party coalition government of Helmut Kohl.

The chancellor's latest crisis could have powerful effects outside Germany. Bonn under Mr Kohl has been the powerhouse of European integration. Over the next few months, the final decisions will have to be made about who will join the planned single currency in January 1999. The last thing the EU needs when member states are struggling to meet the Maastricht treaty criteria for participation is a government in Bonn preoccupied with parochial political problems.

The chancellor, on his return from holiday this week, acted to reassert his authority through toughly worded statements rejecting any reshuffle before the next general election. But this month's events have cast a new shadow over the already subdued electoral prospects of Mr Kohl's quarrelsome centrist coalition of his own Christian Democratic Union, the Bavarian Christian Social Union headed by Mr Waigel and the Free Democrat party.

There is now more than a whiff of the end of the era of Mr Kohl, who 10 months ago became the federal republic's longest-serving leader and who at the beginning of October will notch up 15 years in office.

Mr Kohl's government, which struggled to be re-elected in 1994, faces a daunting task if it is to win the next general election on September 27 1998. It has lagged in the polls behind a putative coalition of SPD and environmentalist Greens for the past year. In recent months, it has been riven by internal disagreements and stumbled from one mishap and policy failure to another in a manner reminiscent of John Major's Conservative government in Britain between late-1992 and Tony Blair's election win in May.

With state elections in Hamburg next month and in Lower Saxony, Saxony-Anhalt and Bavaria next year forcing politicians into almost constant campaigning over the next 18 months, the Bonn coalition has not the luxury of time to regroup and refocus its activities.

It was with the awareness of such weaknesses that Mr Waigel floated the idea of a cabinet shake-up. His presentation was low key. At the tail end of a lengthy interview with the magazine Der Spiegel which had focused on his campaign for a better financial deal for Germany in the EU, he "advised" his friend Mr Kohl to "go into the election campaign with the team that he intended to govern with in the next parliament".



Mr Kohl, from his holiday home in Austria, denounced the idea of a reshuffle as "superfluous as a goitre". In the ensuing speculation about who might stay or go from the cabinet, there was no hint that Mr Waigel himself would not be a member of the post-election team. In the middle of last week, however, this assumption suddenly changed after the regional Bavarian television channel screened an interview with the CSU leader in which he said he no longer wanted to be finance minister after the election, having held this gruelling post for more than eight years.

The interview was a rumination affair, recorded against the idyllic background of Mr Waigel's native Allgäu region of Bavaria on August 3, long before the minister had proposed the cabinet reshuffle. But these circumstances did nothing to limit the damage. In the eyes of the opposition and press, Mr Waigel immediately became the most prominent of a flock of cabinet lame ducks.

Why has Mr Waigel acted in this way? The answer lies largely in the complex world of Bavarian politics, where the federal

finance minister has to contend with a formidable rival in the person of Edmund Stoiber, the state's eurosceptic CSU prime minister.

Mr Stoiber is credited with wanting Mr Waigel's job as CSU leader. The Bavarian prime minister is also facing a difficult state election on September 13 next year, two weeks before the federal poll, when he is able to claim victory the CSU will have to repeat its past performance and win more than 50 per cent of the votes.

Unpopular policies emanating from Bonn have prompted Mr Stoiber and his allies in Munich to wonder whether they are well served by a party leader who has been one of Mr Kohl's closest allies and a key player in ensuring that economic and monetary union starts on schedule with Germany as a participant.

Add to this the fact that the CSU, numerically the second largest party in the coalition, is due to lose one of its four cabinet positions at the end of this year (when the federal post and telecommunications ministry is to be closed as a result of deregulation and privatisation), and it becomes clearer why Mr Waigel

broached the idea of a cabinet reshuffle.

In part, he wanted to prevent the CSU's representation in Mr Kohl's government falling to three cabinet members where it would be on a par with that of the smaller FDP. Mr Waigel pressed for an early decision because he did not want to go to the CSU's annual party conference on November 21, where he will seek re-election as party leader, and be attacked for neglecting the party's Bavarian roots and accepting a weakening of its status in the Bonn cabinet.

This scheme of things was shattered in the wake of last week's delayed disclosure of Mr Waigel's reluctance to continue as finance minister. His standing crumbled with remarkable speed once his remarks became known. Moreover, with speculation of a reshuffle moving back into top gear, other members of the Bonn cabinet joined the finance minister as likely candidates for early retirement.

By last weekend, newspapers, apparently inspired by sources inside the coalition, were busy writing the political obituaries of several CDU ministers. Norbert Blum, the veteran labour and social affairs minister; Jürgen Borchert, the lacklustre agriculture minister who has been under sustained attack for his handling of the BSE affair; and Manfred Kanther, the low-profile home affairs minister, were named as possible candidates for the chop. Horst Seehofer, the CSU health minister whose popu-

larity has slumped since he raised prescription charges, was also under fire. These names were in addition to such hardy annuals as Günter Rexrodt, the ineffective FDP economics minister who has long been seen as a liability and owes his continuing position in government to internal FDP factors.

This contagious outbreak of speculation was doubtless one of the factors that prompted Mr Kohl on Monday to issue such a brutal put-down of Mr Waigel. The chancellor, who under the German constitution has the sole responsibility for reshuffling the cabinet, found his own authority challenged to an unprecedented degree. The rampant speculation threatened to undermine close allies such as Mr Blum, whose contribution to effective government is limited but who commands strong support among Christian trade unionists allied to the CDU and among elderly voters.

Mr Waigel, in an interview published in Focus magazine on Monday, expected the chancellor to back his call for a reshuffle. Instead, Mr Kohl stated that the present team, except for Wolfgang Böttch, the outgoing post minister, would stay until the election. Although Mr Kohl admitted that there would be talks at the end of the year about compensating the CSU for Mr Böttch's departure, he narrowed his room for manoeuvre significantly by singling out ministers Blum, Borchert, Kanther and Seehofer as performing "brilliantly" in difficult circumstances. He also credited his finance minister with doing a "first class job" and predicted that the two men would continue to work side by side.

By laying down the law, Mr Kohl may succeed in putting a lid on damaging speculation about his government's future. But the cost will be heavy. The events of this month have shown how weak the foundations of Mr Kohl's power have become after so many years in office.

Mr Waigel, once an indispensable ally, is seriously weakened and looking even more fragile than in June after the failure of his bungled attempt to revalue the Bundesbank gold reserves.

Mr Kohl may find himself with the worst of all worlds, having undermined Mr Waigel's position with the CSU while still expecting him to deliver policies in Bonn. It is Mr Waigel's job to ensure Germany is fit for EMU. He must also secure parliamentary approval for a tough 1998 federal budget and rescue something from the government's failure so far this year to push through reform of Germany's complex and inequitable tax system.

Little wonder, therefore, that Oskar Lafontaine, the opposition Social Democrat leader, had a broad grin on his face on Monday when he returned to Bonn to capitalise on the government's woes.

He, more than most, knows the power of Bonn's "summer theatre" to wreck political plans and careers. August feuding two years ago totally undermined the position of Rudolf Scharping, then opposition leader, and paved the way for Mr Lafontaine to wrest control of the SPD a few months later.

Bundestag elections					
% of votes cast	Mar 1993	Jun 97	Dec 97	Oct 98*	
CDU/CSU	45.2	44.3	43.6	41.5	
FDP	7.0	9.1	11.0	6.9	
Coalition total	52.2	53.4	54.6	48.4	
SPD	30.2	37.0	35.5	36.4	
Others	6.0	9.6	11.7	15.2	
					After unification

Vershow for Nato?

It's all change at the US embassy in Paris. Even before the arrival of Felix Rohatyn, the new ambassador, Donald Bandler, number two at the Rue du Faubourg St Honoré, has been summoned to the White House to take over from Alexander "Sandy" Vershow as Bill Clinton's adviser on European policy.

Music and theatre-loving Vershow, 35, had been tipped for the embassy in Budapest. But he's now favourite to step into Robert Hunter's shoes as ambassador to the about-to-expand Nato alliance next year. That would be a presidential pat on the back for his handling of the tricky Bosnia and Nato enlargement portfolios: he took a big hand in drafting the recent Nato-Russia agreement.

Washington insiders believe the Russian-speaking career diplomat - who's a veteran of the strategic arms talks and the Moscow and London embassies, and was once deputy head of the US Nato mission - would sail through the Senate confirmation hearings with little opposition from Jesse Helms, the feared and obstreperous Senate foreign relations committee chairman.

Clinton's European advice might need some attention. He

recently received a gift from Romania - the communist-era flag with the red star torn from the centre, which is a prized symbol of Romania's democratic uprising. In a thank-you note to senate speaker Petre Roman, he expresses gratitude for the "flag or poncho".

Pig deal

The Vietnamese passion for pork-stuffed spring rolls is putting serious strain on the country's pig supplies. Even in a country where there are pigs - pot-bellied and otherwise - everywhere you look, there soon won't be enough to go around. That is, unless some new breeds arrive, and what better way for pigs to travel than to fly?

The British-based Pig Improvement Company is working on a \$2.2m project to raise high quality swine for sale to local farmers. It's going to fly 655 lucky porkers all the way from London to Hanoi in a customised cargo plane, complete with automated drinking water systems, and handlers to hold their trotters all the way.

John Gibson, PIC's man in Vietnam, says air travel is the safest and best way to transport pigs over long distances: the company hasn't lost a single curly-tailed hog in 30 years of airlifting them around the world.

And what airline do the porcine passengers prefer? "We'll probably FedEx them in," says Gibson.

Plane truth

The Japanese appear to have revived their ambition to build a successor to the Concorde supersonic airliner: trade and industry ministry Miti is said to be pressing for a "national project" with a prototype in the air in three years.

Uncle Sam's Nasa is studying a successor to Concorde, while Louis Gallois, former head of France's Aerospatiale, was also keen on the idea - until he was sent to run the railways.

There aren't many technical obstacles to building a supersonic passenger craft: the really hard bit is finding airline customers - there weren't many when Concorde appeared, and there still aren't. All a supersonic contender needs is a readiness to kiss \$100bn goodbye and a *soltie-face* by environmentalists.

Forecasting the future of supersonic travel is fairly safe - the chances are you'll be drawing your pension long before anyone proves you wrong. Over 30 years ago, the US Federal Aviation Administration said 300 supersonic aircraft would be flying by the mid-1970s. They'd be full of cheap seats -

the better-off would be flying their own private jets.

Clock watching

France's leftwing government would like to boost job creation by cutting the working week to 35 hours. But could it ever give serious thought to a proposal, apparently in circulation among officials, to fine employers who make staff break the current 39-hour legal maximum?

One of the biggest abusers of the upper limit is the government itself. There are bright young civil servants and advisers in ministerial private offices working late into the night on ministers' pet schemes - like how to cut working hours. Maybe lack of sleep has affected their ability to think clearly.

Summit's up

German thoroughness has solved another little problem. A survey last year of the Brocken - the country's highest mountain, even if it is modest by European standards - showed it was 1,140 metres high. But all the maps and atlases said it was 1,142 metres. So a construction company has just piled six granite boulders on the Harz mountain range's top spot. Saves all that messy reprinting.

Financial Times

100 years ago

Wild Hopes On Wall Street
Wall Street is having its hopes of a continuance of the boom on the most vague of abstract expectations. The idea seems to be that a boom is due, and there the matter ends. Reliance is placed on the fact that there was an extraordinary rise in 1879, but it would be just as reasonable for the bears to base their speculation on the fact that there was a flood in the time of Noah.

On this occasion Europe is doggedly selling American securities instead of buying them, having learned by bitter experience that it is folly to repose the slightest confidence in the figures and statements emanating from the other side of the Atlantic. The last straw was the disgraceful case of the Baltimore and Ohio, when the Directors themselves had to call in Mr Little to tell them whether the published accounts even approximated to accuracy; and when this expert showed that for no less than seven years the figures given to the public had been bordering on the fraudulent.

Toyota warns of 30% drop in Thai car sales

By Michio Nakamoto in Tokyo

Toyota, Japan's leading carmaker, warned yesterday that sales in Thailand could fall by between 20 and 30 per cent this year because of the economic turmoil caused by the devaluation of the baht.

Hiroshi Okuda, president of Toyota, said the company was likely to revise downward its sales and production in Thailand, a market dominated by Japanese manufacturers. Other Japanese car companies are also reviewing short-term plans for the market in an effort to deal with the weak Thai economy.

The predicted cut in Toyota's sales is part of a continuing fall-out from the devaluation of the baht in early July. The currency has fallen by about 30 per cent against the US dollar since then, affecting other Asian currencies.

Siam Cement, the Thai conglomerate, yesterday became the latest domestic company to be affected by the devaluation.

disclosing heavy foreign exchange losses that pushed it to second-quarter losses of \$15.51bn (\$163m).

Mr Okuda said it would take one to two years for the Thai market to recover. However, he emphasised Toyota remained confident about the long-term high-growth potential of Thailand and other south-east Asian countries.

The situation in Thailand contrasts with the recent experience of Japan's carmakers in other overseas markets. Exports have risen for five consecutive months on the back of a weaker yen and the introduction of new models. Strong car exports, which rose by 32 per cent last month, helped increase production in Japan by 8.2 per cent.

Thailand's currency crisis has come at a particularly difficult time for Japanese carmakers. They have invested heavily in Thailand, which they have identified as a base for their Asian ambitions.

This year Toyota opened a second factory, costing Y37bn

(\$315m), to manufacture its so-called "Asia car". Honda opened a ¥12bn factory in March 1996. Several Japanese parts makers have set up as well.

Toyota's Thai sales dropped by 7 per cent in the seven months to July. The overall market fell by 17 per cent in the same period.

Nissan, Japan's second-largest carmaker, had already laid off 200 seasonal workers due to sluggish sales before the baht's depreciation on July 2. Since then it has closed a commercial-vehicle factory for the whole of August and reduced production at another plant.

Nissan is reviewing plans to expand its Thai output to 140,000 units, as the weak economy has left production stagnant at about 90,000 units. "We have been hit very hard by the economic weakness. We need to watch and see when and how the market recovers," the company said.

Siam Cement hit by currency losses, Page 13

Tories hit back at Diana's reported attack

By George Parker, Political Correspondent

Senior members of Britain's opposition Conservative party yesterday criticised Diana, Princess of Wales, after she appeared to attack the previous Tory administration in a newspaper interview.

Le Monde, the French daily newspaper, reported her calling the government of former prime minister John Major "hopeless" over its failure to ban the use of landmines.

Her reported comments - denied by Kensington Palace - added to the increasing concern of many Conservatives at the apparent closeness of the princess and her former husband, the Prince of Wales, and the new Labour government.

The princess has praised the new government's proposed ban on the use of landmines, while Prince Charles has suggested that his Prince's Trust should become involved in the government's welfare-to-work scheme.

Members of the royal family traditionally do not enter the political arena.

Sir Patrick Cormack, the opposition's deputy leader of the House of Commons, said the princess was "an inexperienced young woman" making "partisan, political" comments.

David Wilshe, a Conservative member of parliament, said: "I think it's really, seriously dangerous to drag the royal family into party politics. I don't think we ought to allow a young woman to come up and make a speech to the House of Commons."

Under the rescue scheme, the Mexican government will assume some 60bn pesos (\$7.6bn) of debt owed by 23 of the toll roads and take possession of the roads.

The construction companies that built the roads will have to write off their equity investment in the failed projects. But they will receive 22.5bn pesos in government bonds in recompense for unpaid fees owed to them by the road operators.

The government hopes to recoup 40.8bn pesos in income from tolls, although the construction companies will operate the roads on its behalf for at least the next two years.

GMD is thought to have a struggle on its hands to avoid bankruptcy. Private toll road projects represented three-quarters of its assets.

The company calculates it will have to write off 7.5bn pesos in road investments, but will receive only 2.5bn pesos in government bonds. It will thus have to register a charge of more than 5bn pesos.

"We are only getting back 33 per cent of our total road investment of \$934m. We think we deserve \$130m more," said David Rangel, chief financial officer.

Magellan's lost bearings

THE LEX COLUMN

Elephants are big, but hardly nimble. This is why Fidelity, the world's largest investment manager, is closing Magellan, the world's largest mutual fund, to new investors. Given Magellan's enormous prestige and handsome fees, the Boston fund manager has not taken this step lightly.

With assets of \$63bn, however, Magellan has simply become too big to be effective at its original role of picking US growth stocks. Even if its manager identified the next Microsoft, to boost its overall performance Magellan would have to pour so much money into such a stock that other investors would spot it crashing through the undergrowth and drive up the price. In practice, therefore, Magellan has turned into a quasi-indexed fund that is finding it increasingly difficult to beat the market average. It has signally failed to do so since 1990, although its return so far this year, at 22 per cent, is back up with the S&P 500 index.

But there is more to this decision than mere size. Magellan's closure comes just as its cash flow is turning positive again, after 15 months of heavy redemptions. Bob Stansky, Magellan's manager, has promised his 4.3m shareholders to stay fully invested in equities - partly because of his predecessor's mistimed move into bonds in late 1995, which cost Magellan dearly. At the same time, though, Mr Stansky is openly reluctant to buy stocks at current prices, so the last thing he wants right now is extra cash piling up. That fact alone should give investors food for thought.

GEC

After last year's punch-up with shareholders over a top executive's pay, you might think General Electric Company would have learned its lesson. No such luck. The performance criteria in GEC's latest share option plans are strikingly feeble.

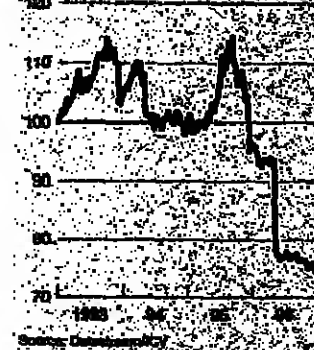
Consider a top executive's package. As well as a basic salary, he could earn a further 40-60 per cent in annual bonus. Up to half of that can come in GEC shares, bought at a non-performance-related 20 per cent discount. On top, he could have share options with a total exercise price of up to four times his earnings; for them to be cashed, GEC's annual earnings per share must have beaten inflation by a not very demanding 3 per cent.

But the really sexy bit is a further dollop of "super options" - again up

FTSE Eurotop 300 index: 941.2 (+4.2)

Fidelity Magellan Fund

Share price relative to the S&P 500 index



Source: Fidelity Investments

to four times earnings. Supposedly, these encourage truly remarkable performance. Yet the criteria hardly suggest so. To beat EPS growth in the preceding five years is hardly demanding when, over the last five, underlying EPS has risen less than 5 per cent a year on average. True, there is also a total shareholder return target. But it is not an inspiring one when 35 per cent of the allocation pays out if GEC merely tracks the FTSE 100 median return. The objection to this scheme is not that it could pay out a great deal of cash. If GEC's performance were genuinely transformed, lavish rewards would be entirely deserved. The problem is this: if the purpose is to incentivise top-flight performance, why offer such fat rewards for mediocrity?

Auditors

Imagine you are an unhappy auditor. Perhaps you resign, fed up with a client's keenness to flatter its figures. Alternatively, you ask awkward questions and are quietly dropped. Either way, there is a powerful case for investors and lenders being told the background to your departure. At the very least, your successor should be. The snag is that anything you say publicly - especially if there is no specific wrongdoing - could get you sued. Even your freedom to say anything to the new auditor is limited: if your former client insists on confidentiality, you must respect it.

This regime is too restrictive. Hence Deloitte & Touche's entirely sensible suggestion that auditors need more legal freedom to whistleblow. Certainly there should be no objection to one auditor talking to

another. Allowing auditors more protection to make vague public allegations against former clients is, of course, a riskier step. Still, the risk to an auditor's reputation would be powerful protection against raising false fears.

But why not go further, and take a leaf out of the US book? Under Securities and Exchange Commission rules, companies losing or sacking an auditor must make a public statement of any disagreements in the last two years - and the auditor must confirm the statement is accurate. With such an obligation, whistle-blowing would still be an extreme event. But that hardly matters; just the threat would usefully strengthen auditors' negotiating hand in keeping accounts on the straight and narrow.

W.H. Smith

News that W.H. Smith does not plan to break itself up will disappoint some investors. The shares' dismal performance offers ample reason to hope for a radical solution. And the break-up values being touted around - at worst, a 30 per cent premium to the share price - were enticing. But shareholders should not shed tears for what may well have proved an illusion.

For one, some of the valuations in these calculations look over-generous. And while some businesses could be sold easily enough, the risk is that W.H. Smith would be disposing of its jewels only to be left with the problem child - the core high street retail chain. Moreover, unlike many conglomerates, it is possible to believe there are synergies to be had from keeping this structure together.

That said, there is no quick turnaround at hand. The search for a new chief executive is proving a daunting interregnum. And this is before the realisation of the core chain - margins are too low and like-for-like growth is a measly 1 1/2 per cent - is addressed. The bright spot is that Beverley Hodson, the new retail director, looks to be introducing basic disciplines which should improve margins. Boosting sales, however, will prove more difficult, given the growing threat from supermarkets. W.H. Smith's convenience and breadth of range do remain strengths; but rehabilitation will not be quick. The shares, which are rated on a 30 per cent discount to the market to the end of 1998, look likely to remain cheap.

Microsoft piracy pact

Continued from Page 1

year for Egyptian security personnel assigned to combat piracy, which lost the worldwide industry an estimated \$11.2bn last year.

"All the plans that Microsoft advanced are very much contingent on the Egyptian government enacting its commitments," Ashok Sharma, the BSA's regional officer, said yesterday.

"We expect them to follow up with action."

Microsoft estimates that the Arabic software can be produced 20 per cent more cheaply in Egypt than in Europe, where it is produced now. This accounts for Egypt's decision to cut tariffs on computer and software products from 30 to five per cent. The BSA believes piracy decreases if retail costs are lower.

Norway oil

Continued from Page 1

mandates. These contracts are expected to attract very keen interest from fund managers from the US and continental Europe.

Assets of £100bn - which the fund could achieve early next century - would make it as large as the world's 10 biggest pension funds.

"In some highly liquid markets like the US and the UK, the fund may buy shares in all the constituent companies in the main index," says Martin Skancke, the finance ministry official who is devising the guidelines.

Mexican builder defaults on bond interest payment

By Daniel Dornbey in Mexico City

Grupo Mexicano de Desarrollo (GMD), one of Mexico's largest construction companies, yesterday faced the threat of bankruptcy after defaulting on a \$10.4m interest payment on an outstanding eurobond.

It was one of Mexico's biggest corporate defaults since the peso crisis of 1995. GMD's failure to meet payments on the \$350m eurobond followed a \$7.6bn government plan to rescue the country's failing toll roads, a scheme that obliges construction companies to write off billions of dollars of investment in the roads.

GMD also announced it would seek to renegotiate \$256m of debt with Mexican banks and would sack 80 per cent of its workforce.

The GMD crisis is the most spectacular corporate backlash to date from the 1980s toll road scheme, introduced to attract private investment to infrastructure projects. The scheme has been plagued by poor financing, low traffic flows and ballooning construction costs. Today most of the toll roads are empty and poorly maintained.

GMD's shares were suspended on the Mexican stock exchange yesterday after falling 25 per cent the previous day. Shares in Mexico's two other big road construction companies, ICA and Tribasa,

also suffered and were down by 2 per cent and 5 per cent respectively midway through trading yesterday.

ICA and Tribasa are not thought to run any risk of insolvency as roads represent a minority of their assets.

Under the rescue scheme, the Mexican government will assume some 60bn pesos (\$7.6bn) of debt owed by 23 of the toll roads and take possession of the roads.

The construction companies that built the roads will have to write off their equity investment in the failed projects. But they will receive 22.5bn pesos in government bonds in recompense for unpaid fees owed to them by the road operators.

The government hopes to recoup 40.8bn pesos in income from tolls, although the construction companies will operate the roads on its behalf for at least the next two years.

GMD is thought to have a struggle on its hands to avoid bankruptcy. Private toll road projects represented three-quarters of its assets.

The company calculates it will have to write off 7.5bn pesos in road investments, but will receive only 2.5bn pesos in government bonds. It will thus have to register a charge of more than 5bn pesos.

"We are only getting back 33 per cent of our total road investment of \$934m. We think we deserve \$130m more," said David Rangel, chief financial officer.

FT WEATHER GUIDE

Europe today

A cold front stretching from south-western Norway through the Low Countries and eastern France to the north of Spain will bring rain and thunderstorms. The front will move eastwards into Germany and the Alps during the day to leave western areas cooler with sunshine and showers.

Romania, Ukraine and the Adriatic will have some thundery showers and hot sunny spells.

The rest of Europe will be dry, warm and sunny, apart from eastern Finland and northern Russia where there will be scattered showers.

Five-day forecast

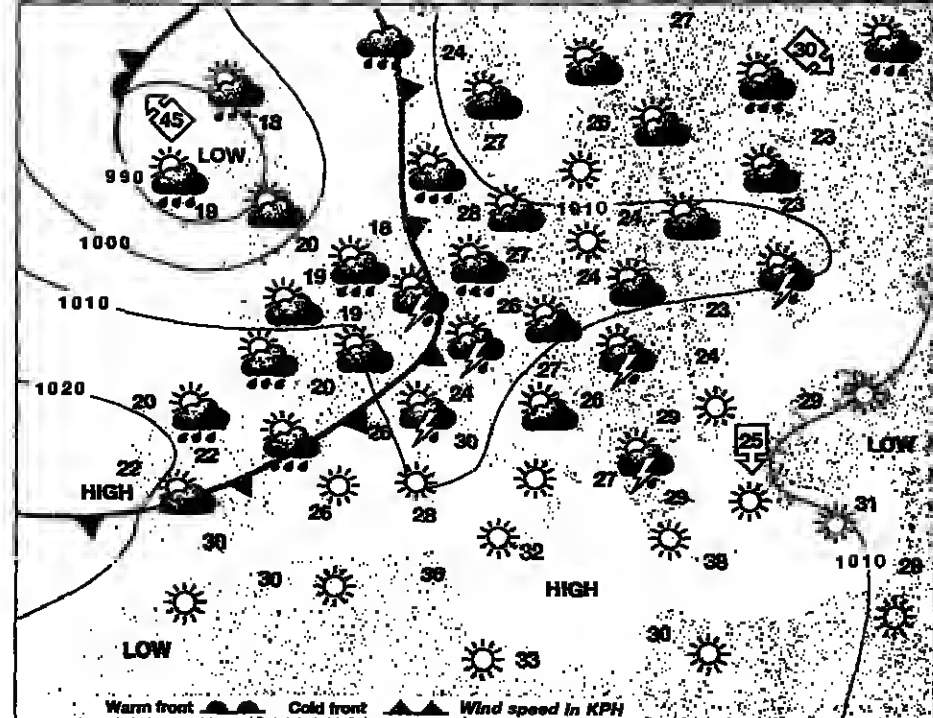
Unsettled conditions, with rain and thunderstorms, will move eastwards to leave western and central Europe mainly fine with warm sunshine. However, the far west will become cloudy again on Sunday, with rain developing.

Most of Scandinavia will continue fine and warm but there will be cloud and showers in Norway and Denmark.

TODAY'S TEMPERATURES

	Maximum Celsius	Beijing Beijing	
Abu Dhabi	sun 39	Belgrade	sl
Accra	cloudy 29	Berlin	
Algiers	fair 30	Bermuda	c
Amsterdam	rain 18	Bogota	
Athens	sun 29	Bombay	
Atlanta	fair 33	Brussels	
B. Aires	showers 25	Budapest	
B.ham	fair 19	C.hagen	sl
Bangkok	fair 35	Cairo	
Barcelona	sun 25	Cape Town	st

Our service starts long before take-off.



Situation at midday. Temperatures maximum for day. Forecasts by FA Weather Centre

fair 32	Caracas	thunder 32	Faro	sun 26	Madrid	sun 22	Rangoon	showers 30
power 19	Cardiff	cloudy 18	Frankfurt	thunder 25	Managua	sun 22	Reykjavik	rain 14
fair 26	Casablanca	fair 25	Geneva	rain 20	Moscow	sun 19	Rio	fair 26
fair 28	Chicago	sun 23	Gibraltar	rain 27	Manchester	fair 30	Rome	fair 30
cloudy 30	Cologne	thunder 21	Glasgow	cloudy 18	Mexico City	showers 30	S. Paulo	sun 23
power 19	Dakar	fair 32	Hamiburg	showers 27	Moscow	cloudy 15	Seoul	sun 30
rain 50	Dallas	sun 35	Helsinki	showers 21	Shanghai	fair 32	Singapore	fair 32
rain 19	Deln	showers 30	Hong Kong	fair 33	Miami	fair 33	Stockholm	sun 27
fair 25	Dubai	sun 41	Hong Kong	fair 32	Milan	thunder 21	Strasbourg	thunder 21
power 23	Dublin	fair 19	Istanbul	sun 28	Montreal	cloudy 23	Sydney	sun 18
sun 51	Dubrovnik	fair 25	Jakarta	thunder 16	Moscow	showers 23	Taipei	sun 28
power 21	Edinburgh	fair 18	Karachi	thunder 16	Munich	cloudy 27	Tel Aviv	sun 29
			Karachi	fair 35	Nairobi	fair 26	Tokyo	fair 30
			Kuwait	sun 44	Naples	sun 29	Toronto	fair 23
			L. Angeles	sun 26	Nassau	sun 32	Vancouver	showers 18
			Lima	sun 24	New York	thunder 27	Vancouver	cloudy 14
			Lima	cloudy 24	Nice	fair 32	Vienne	fair 26
			Lisbon	fair 22	Nicosia	sun 31	Warsaw	fair 30
			London	sun 20	Oelo	showers 24	Washington	fair 24
			London	showers 20	Paris	thunder 17	Wellington	fair 32
			Lyubon	showers 25	Perth	thunder 17	Winnipeg	showers 26
			Lyubon	showers 25	Prague	fair 27	Zurich	thunder 18

Leaders in the insurance sector

Demutualisation and Flotation

£6.4 billion

Dresdner Kleinwort Benson acted as financial adviser to Norwich Union.

June 1997

Sun Life and Provincial Holdings plc

Acquisition of AXA Equity & Law, AXA Equity & Law Investment Managers and AXA Insurance

£760 million

and new shares in Sun Life Asset Management

Dresdner Kleinwort Benson acting as joint financial adviser to Sun Life and Provincial Holdings.

July 1997

J. ROTHCHILD ASSURANCE HOLDINGS plc

Acquisition by St James's Place Capital

£185 million

Dresdner Kleinwort Benson acting as financial adviser to J. Rothschild Assurance Holdings.

May 1997

Dresdner Kleinwort Benson

Incorporated in the United Kingdom. Registered by the Financial Services Authority. Member of the Dresdner Bank Group.

COMPANIES AND FINANCE: INTERNATIONAL

Hagemeyer agrees twin all-share deals

By Gordon Cramb in Amsterdam

Hagemeyer, the Dutch trading company, is to pay about £1.3bn (\$1.9bn) in twin all-share deals to buy a Nordic electrical wholesaler from the Swiss-Swedish Asea Brown Boveri and an Australian-based computer distributor from First Pacific, the Hong Kong group which has long been Hagemeyer's biggest shareholder.

Yesterday's announcement accompanied a 26.9 per cent rise in interim net profits to £141.2m and sent shares in Hagemeyer £13.50 higher in Amsterdam to close at

£105. Revenues were 25.8 per cent ahead at nearly £1.42bn.

The company said it would acquire Asea Skandia, which has annual revenues of £1.4bn from operations in Sweden, Norway, Finland, Russia and the Baltics and that it was market leader in the wholesale distribution of electrical materials in countries including the UK, Germany and Switzerland.

Hagemeyer is also buying Tech Pacific, which it said had annual turnover of about £1.2bn and was market leader in distributing computer hardware, software and tele-

communications products in Australia, Hong Kong, Singapore and Malaysia.

"With Tech Pacific, Hagemeyer enters an expanding and interesting market in the Asia-Pacific region and obtains access to specific distribution and logistics know-how, which will enhance the further development of the whole group in this region," it said.

The region would bring in a quarter of total revenues next year, the group added. Although it gave no comparative figures, one analyst estimated the region's contribution for 1996 at 10 per cent.

Hagemeyer late last year took full control of HCL, a Hong Kong distribution venture set up in 1984 with the Anova group.

HCL markets consumer products and technical equipment from western and Japanese manufacturers.

That deal involved the issue of shares to Anova representing about 7.5 per cent of its equity, and the transactions announced yesterday are to be similarly funded.

Hagemeyer said, however, that in each case the acquisition would enhance earnings per share, which in the first six months rose from

£1.33 to £1.58. The interim dividend is 42 cents a share, up from 37.5 cents.

The Asea Skandia purchase price will be met by issuing up to 7.5m new shares in a private placement, expanding its equity by 8.2 per cent.

First Pacific is to receive about 5m shares for the unit it is handing over, or a further 5 per cent of the capital as enlarged through the Nordic deal.

The price for Tech Pacific, to be confirmed by a fairness opinion, was about 13 times expected earnings this year, Hagemeyer said.

Germany set for banks to consolidate

Bancassurance is back in vogue as restructuring gathers pace in Europe

Analysts of the German banking scene have been working overtime in the past few weeks. So have those who keep the rumour mill grinding. Ever since the two big Munich-based banks - Bayerische Vereinsbank and Bayerische Hypotheken- und Wechsel-Bank - announced plans to merge last month, the search has been on for who is next.

Speculation has been rife, with bank share prices continuing to soar until the stock market's latest setback. This week, however, brought some hard news in the form of a Swiss acquisition of a small German bank, highlighting the drive towards consolidation but giving no clues as to where the next big move will come. With its agreed DMB30m (\$194m) purchase of Schroder Münchenener Henest from Lloyds TSB of the UK, Union Bank of Switzerland is filling in a small piece of the German banking jigsaw, mainly on the asset management and private banking side.

But most of the big pieces have yet to be placed. So the speculation about which bank is stalking which continues. Last week, for exam-

ple, saw a spate of stories about Commerzbank, with UK, Swiss and German banks all named as possible predators.

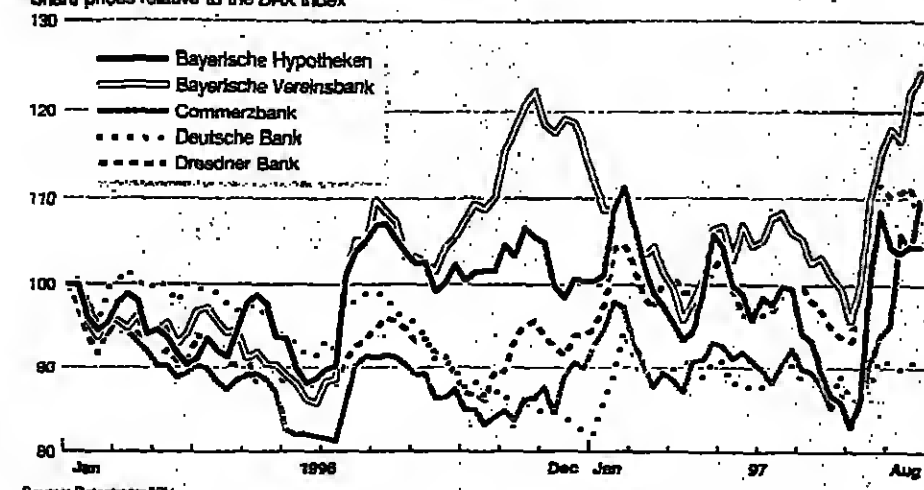
With no big shareholders to protect it and the perception that it has strategic deficits in such areas as investment banking, Commerzbank looks vulnerable, some analysts say. Buying Commerzbank would not be cheap - its market capitalisation is around DMB2bn.

It has held talks with possible partners in the past and some analysts strongly believe Deutsche Bank, Germany's biggest bank, has been looking at it. But other moves are also afoot at the big Frankfurt banks. Dresdner Bank, currently number two in terms of market capitalisation, is keeping its eyes peeled for a possible US investment banking target, as well as seeking further asset management purchases in the UK. Deutsche Bank has announced its interest in a French acquisition and wants to expand its German insurance interests.

"I think change will happen fairly quickly," says Neil Crowder, European banking

Mergers and market murmurings

Share prices relative to the DAX index



Source: Datastream/ICV

analyst at Goldman Sachs. "This will not just affect Germany, but Europe as a whole." Increasingly, the banking community believes a period of rapid change is approaching.

Dietrich Hein, banking analyst at Commerzbank, points to the concentration taking place across the world in financial services and industry, a process in which Germany still lags behind. With banks and insurance companies encroaching increasingly on each other's territory, notably in asset management, Allianz (or bancassurance) - the notion of combining banking and insurance activities, much in vogue in the 1990s - could see a revival, he believes.

Dresdner has said it planned to work more closely with Allianz, the insurance group which has a 22 per cent stake in the bank. Allianz is also believed to be keen to expand, possibly in France. Munich Re, owner of 25 per cent of Allianz which in turn has a

stake of the same size in the reinsurer, has been actively reshaping its insurance interests and may be ready for another move.

According to one German banking executive: "We're entering a year to 18 months of fairly active consolidation in European banking, where you have to decide whether you're a player or not." Forcing the pace of change is the approach of the European single currency, shrinking margins on traditional lending, growing pressure by investors and savers for higher returns and the need to service changing corporate needs at a time of industrial restructuring.

The recent merger agreement between Credit Suisse, the big Swiss bank, and Winterthur insurance has further alerted bankers to the enormity of the changes going on around them. "Two or three years ago, there was a very cosy relationship among all the financial giants in Germany," says Mr Crowder. "Now, this is breaking down."

All sorts of possibilities

are raised by this development. Mr Hein sees Allianz as the nucleus of a large financial grouping, based on its 22 per cent stakes in Hypo-Bank and Dresdner. "Deutsche Bank cannot just sit idly by and watch."

The Bavarian merger has worsened Deutsche's strategic position in the face of accelerating concentration, he believes. "The number of possible partners has decreased, prices have risen and Allianz has extended its area of influence." Against this "we can wait eagerly for the next move by Germany's biggest bank in the 'power' poker with Allianz."

But it is not only in Frankfurt and Munich that the stakes have been raised. Berlin's Bankgesellschaft's talks with Norddeutsche Landesbank raise the prospect of yet another force in German banking. Stephan Schüller, a Vereinsbank director, says: "I believe we shall see some very unexpected and strategic moves in the near future."

Andrew Fisher

SA group in \$150m Europe expansion

By Alice Rawsthorn

Ster-Kinekor, the largest cinema operator in South Africa, has joined the growing number of investors building cinemas in Europe by unveiling plans to spend \$150m on 30 multiplexes over the next three years.

Mr Mike Ross, managing director of Ster-Kinekor Europe, said the company would concentrate its investment in the UK and Ireland, as well as Greece, the Czech Republic, Poland and Hungary.

The investment plans come at a time when rival have also unveiled proposals for aggressive multiplex construction programmes throughout Europe.

Warner Village, a joint venture between Time Warner, the US entertainment concern, and Village Roadshow, the Australian media company, plans 26 in the UK and Germany alone by the end of the decade.

United Cinemas International, a chain owned jointly by Seagram and Viacom, the North American entertainment group, is expanding at a similar pace in Germany, Austria and Poland. Gaumont, one of France's larger cinema chains, is expanding into eastern Europe.

A recent report by Dodona, the specialist research consultancy, forecast that the number of cinema screens in Europe would increase by at least 2,000 to more than 22,000 by the end of the decade. Dodona estimates that nearly 1,400 new screens have opened across the continent since 1990.

In spite of this investment and growing competition for multiplex locations, Mr Ross said he believed there was still scope for expansion in the European cinema market.

Ster-Kinekor Europe, controlled by Kersaf Investments, the South African leisure company which last month sold control of Ster-Kinekor's South African interests to the Primedia group, has already secured seven sites for development.

These include 16-screen complexes in Ireland and the UK. Mr Ross said Ster-Kinekor would concentrate on cinemas in multipurpose entertainment centres, as it did in South Africa.

INTERNATIONAL NEWS DIGEST

Eurotunnel plan put before court

Disgruntled shareholders in Eurotunnel, the troubled cross-Channel rail operator, will on Monday mount a challenge in a Paris court to the company's \$2.5bn (\$1.6bn) restructuring plan. George Berlioz, a lawyer representing Adacte, the Eurotunnel shareholders' association, will argue that the plan is illegal under French law on at least two grounds.

He said yesterday he would challenge the debt for equity swap arranged by banks under the plan, arguing that the deal is being carried out at the nominal value of the debt, rather than the true value - which is lower and fluctuating - at which the loans have been trading on the secondary market.

He claimed the restructuring deal was also a concert party between the creditor banks, and that under stock market regulations they should be required to make a full tender offer for all of Eurotunnel's shares. His objective, and that of Adacte, is to force Eurotunnel's creditor banks to renegotiate the restructuring package, improving the residual value left to shareholders by writing off at least an additional FF8bn (\$1.3bn) in debt.

Falling that, he has argued Eurotunnel should be placed in the hands of the French bankruptcy courts, which he claims would lead to a better return for investors. Adacte attempted to vote down the plan at Eurotunnel's annual general meeting in July, but was defeated, with nearly 98 per cent of shareholders in attendance supporting the measures. *Andrew Jack, Paris*

CHEMICALS

BASF, PPG buy from each other

BASF, the German chemicals group, yesterday moved to strengthen its position in the world surfactants industry with a deal to buy a business from PPG Industries of the US. As part of the agreement, PPG Industries, which produces coatings, glass, fiberglass and chemicals, has agreed to buy BASF's container coatings business.

Surfactants are used in detergent and cleaning products, and in the paper, leather and textiles industries. The agreement means BASF will take control of PPG's seven surfactant plants in the US, the UK, Belgium and France. BASF - which is a European market leader in surfactants - said the move would improve its strategic position in international markets, especially in the North American Free Trade Agreement region.

In turn, PPG will buy BASF's container coatings plants in Tiel, the Netherlands, and in Baranzate, Italy, as well as another centre in Ohio in the US. BASF said each of the businesses to be exchanged has total sales of about \$150m. *Graham Bowley, Frankfurt*

NORWAY

Storebrand slides 38% halfway

Storebrand, Norway's biggest insurer, yesterday announced a 38 per cent slide in first-half profits, to NKR534m (\$712m), which it blamed on weaker results in non-life business. Storebrand, whose plans to merge with Christiania Bank were blocked by shareholders two months ago, said the group recorded an operating profit of NKR1.06bn in the first six months, NKR794m lower than last time. After distributing the profit to the life assurance and pension insurance policyholders, the group's profit came to NKR534m compared with NKR660m. "Storebrand's results reflect the positive development in investment and premium income, as well as weaker results from non-life insurance due to a sharp increase in claims payments," the company said. Non-life operating profits fell from NKR494m to NKR385m. Aage Korsvold, group president and chief executive, said he expected competition in the insurance market to remain fierce in the non-life segment, with margins under pressure. *Agencies, Oslo*

CZECH ENGINEERING

Skoda makes surprise losses

Skoda, the Czech Republic's biggest heavy engineering company, yesterday surprised analysts by posting a consolidated loss of K22.2bn (\$65m) for 1996. In 1995 the company made a consolidated loss of K43.5bn. Lubomir Soudek, Skoda chairman and the biggest shareholder with 24.7 per cent, had forecast 1996 gross profits of K5000m - K5700m.

Although sales rose 26 per cent to K223.5bn, Skoda made an operating loss of K21.2bn, against 1995 operating profits of K232m. This was primarily because of increased labour costs, up K22.4bn to K55.4bn, and an increase in bank borrowings. Indebtedness soared from K23.9bn in 1995 to K52.5bn as Skoda sought working capital and debt financing for investments. Skoda's liabilities now exceed its equity by a ratio of 2:1.

Analysts attributed Skoda's surge in consolidated losses to a K21bn increase in provisions, to K21.7bn, and to losses at several divisions, including Skoda Machine Tools and Unifortek. Its German metals forming subsidiary, Ondrej Deika, engineering analyst at Patria Finance in Prague, also noted that "the auditors were more strict than in previous years". Skoda is not related to Skoda Auto, a carmaker in which Germany's Volkswagen has a 70 per cent stake. *Joe Cook, Prague*

SHIPBUILDING

Lauritzen back in black

The future of the Lauritzen Group's shipyard, Danyard, was still in doubt yesterday when the Danish group revealed that negotiations for the sale of 48 per cent of the yard and a capital injection by Penang Shipbuilding Construction of Malaysia had not been completed. Negotiations are stalled over new orders for the yard, which employs almost 2,000 people in the north Jutland town of Frederikshavn. The group reported a return to first-half profits of DKR139m (\$20.4m) against a loss last year of DKR169m. The ordinary operating result showed a surplus of DKR49m compared with a loss last time of DKR288m. Turnover was down from DKR7.8bn to DKR7.2bn. *Hilary Barnes Copenhagen*

FOOD AND DRINK

BolsWessanen warns on full-year

BolsWessanen, the Dutch food and drinks group, lifted first-half net profits 15.5 per cent to £17.9m (\$26.9m) but disappointed investors by saying full-year growth would rise by about 10 per cent from the £19.2m seen in 1996. With the interim dividend unchanged at £1.02, the shares closed down £1.19, or 5 per cent, in Amsterdam at £136.20. While sales were up 18.2 per cent to just under £1.26bn, half the increase stemmed from exchange rate movements. Stripped of these and the effect of acquisitions, autonomous growth was just 3.7 per cent. The company, which had signalled this as a turnaround year after a period of earnings decline, remains willing to shed its drinks division if it finds a big and promising takeover target in the food sector. Bols said it benefited from improved margins at its US dairies, but its convenience foods and cereals sales was hit by higher meat prices and start-up costs at a Belgian factory. Spirits achieved growth in central Europe, while its 88 per cent stake in Italy's Campari increased its contribution. *Gordon Cramb, Amsterdam*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

CSFB jumps 51% mid-way to SFr1.3bn

By William Hall in Zurich

Credit Suisse First Boston, the investment banking arm of the Credit Suisse Group, increased first-half pre-tax profits by 51 per cent to SFr1.31bn (\$880m).

Revenues from securities and derivatives businesses grew roughly three times as fast as corporate and investment banking.

The growth in CSFB's profits, which contributed 58 per cent of group revenues, was fuelled by big increases in the profits of fixed-income, equities and Credit Suisse Financial Products, the derivatives business.

Credit Suisse said revenues and profits recorded

higher rates of growth than most industry competitors, even after adjusting for the effects of the dollar depreciation.

The results are the first since Lukas Mühlemann took over as chief executive of the Credit Suisse Group at the start of the year.

Credit Suisse had indicated that its net profits had risen 70 per cent to SFr1.4bn when it announced its proposed merger with Winterthur, Switzerland's third highest insurer, just over a fortnight ago.

However, yesterday's figures, which were much more detailed than anything Credit Suisse has published before, gave the first glimpse

of Mr Mühlemann's progress in cutting costs and re-allocating capital within the group.

Credit Suisse shares, which had fallen by 16.5 per cent since the Winterthur deal was announced, rose SFr5.5 to SFr179.50 yesterday.

The group's efforts to turn round Credit Suisse, the loss-making domestic subsidiary, are starting to bear fruit: the division's revenues rose 5 per cent to SFr1.36bn; operating expenses fell 6 per cent to SFr1.12bn; and the pre-tax loss was cut from SFr534m to SFr177m.

However, the cost income ratio of 88 per cent is still much higher than the

group's target of 65 per cent. Credit Suisse Private Banking increased its pre-tax profits 30 per cent to SFr82m, helped by a 15 per cent rise in revenues to SFr1.77bn. Operating expenses increased 3 per cent to SFr130m.

Bank Austria, Austria's biggest bank, has finalised the exchange offer for the minority of the shares of Creditanstalt, its main rival, which it took over this year.

Creditanstalt shareholders will receive four ordinary or preferred shares in Bank Austria for every three Creditanstalt ordinary or preferred shares.

The exchange offer has been pitched at the high end

of expectations and is based on the view that a single share in Creditanstalt was worth 1.333 Bank Austria shares.

The shares of both banks were suspended ahead of yesterday's news, with Bank Austria's preferred shares, its most widely quoted security, closing at Sch542. Its thinly traded ordinary shares closed at Sch602.

Creditanstalt's ordinary shares closed at Sch729.9 and its preference shares at Sch810.

Gerhard Randa, Bank Austria chief executive, said he hoped the enlarged group would soon further simplify its share structure by moving to a single class of share.

Israeli economy behind Koor fall

By Judy Dempsey in Jerusalem

Koor Industries blamed the slowdown in the Israeli economy and loss of contracts with Bezeq, the state-controlled telecommunications network, for the fall in its net income for the first six months of the year.

But Israel's largest industrial holding company increased exports by 22.2 per cent over the same period, from \$613.2m to \$748.5m, following investments in telecoms and agrochemical companies in Latin America and Spain.

Net income fell from \$118.4m, or \$7.63 per ordinary share, to \$88.6m, or \$5.67.

The comparisons include a capital gain of \$21m in the second quarter of last year from the initial public offering of shares of Tadiran Telecommunications, a unit of Koor's 64 per cent-owned subsidiary Tadiran, and a gain of \$28m this year.

Koor said its profitability was "considerably moderated" by the gains.

Operating income over the same period fell from \$194.3m to \$161.9m. Revenues grew 3.2 per cent from \$1.74bn to \$1.79bn.

Benjamin Gao, chief executive of Koor, said the sluggish economy as well as uncertainty over the peace process had affected earnings.

Growth in gross domestic product

during the first half of the year was only 1.3 per cent against 4 per cent in the earlier period.

The treasury had forecast a growth rate of 2.5 per cent for 1997. In spite of the drive to increase exports, which accounted for 41.3 per cent of total sales compared with 34.9 per cent in the first half of last year, Koor's three core businesses - telecoms and electronics, agrochemicals and building materials - are still heavily dependent on the domestic economy.

Its construction division has been particularly hit by a 21 per cent decline in building start-ups over the first half.

Koor, which also has interests in hotels, has been hit by a 15 per cent fall in tourism because of last year's bombings and the recent suicide bomb attack on a Jerusalem market.

Analysts say Koor has underperformed the Tel Aviv stock market since the start of the bull run last October.

This may change when Claridge Israel, the investment group which bought a 10 per cent stake in Koor from Shamrock Holdings of the US, with an option to purchase a further 10 per cent, announces its strategy for the company.

Last month, Koor's main shareholders said they would explore a spin-off or disposal of part of its subsidiaries.

Government picks new Maruti chief

By Amy Louise Kazmin in New Delhi

The Indian government has selected a company veteran as managing director for Maruti Udyog, the car manufacturer that dominates the Indian passenger car market, after a tussle with Suzuki, its joint venture partner.

The Japanese carmaker is said to have favoured a more market-oriented candidate to steer Maruti through a new era of fierce competition.

R.S.L.N. Bhaskarudu, whose 14 years at Maruti have been spent primarily on production, projects and materials procurement, was chosen by India's Industry Ministry.

Under the 1992 joint-venture agreement, the government and Suzuki take turns to choose the managing director. Suzuki's consent was not required.

Suzuki, which has nominated R.C. Bhargava, the previous managing director, as part-time chairman, did not comment on the appointment. Its silence, and the fact that the appointment was not announced until the last moment, are seen as the latest sign of strain in the relationship between the joint owners.

A much-needed \$428m expansion plan was delayed for almost a year owing to a disagreement over funding. Suzuki had sought an equity offering, but the Indian government

resisted the move to dilute its holdings.

The partners agreed to raise money via internal accruals and debt to build a paint shop, upgrade existing models and add engine manufacturing capacity.

Anup Mukherji, a joint secretary in India's Department of Heavy Industries and a government appointee to the Maruti board, said Mr Bhaskarudu was picked for his "wealth of experience".

In spite of the intense speculation surrounding his appointment, Mr Bhaskarudu expressed confidence about the future. "We will all work together to take the company to greater heights," he said.

The new managing director will take over at a challenging time for the 14-year-old company. After years of enjoying a near monopoly on small cars, Maruti must defend its position against rivals such as Daewoo of South Korea and India's own Tata Engineering and Locomotive Company. Both are planning models that could erode Maruti's estimated 70 per cent market share.

Nominations for chairman and managing director must be formally approved by the annual meeting, due on September 22. Indian officials had sought to hold the AGM yesterday, immediately after the board meeting, but Suzuki representatives refused, saying they had not been given enough notice.

NOTICE OF FULL REDEMPTION

To the Holders of

BTM (CURACAO) HOLDINGS N.V.

(formerly known as Bank of

Tokyo (Curacao) Holding N.V.)

U.S.\$350,000,000

Undated Subordinated

Guaranteed Floating Rate Notes

NOTICE IS HEREBY GIVEN

to the holders of the U.S. \$350,000,000

Undated Subordinated Guaranteed

Floating Rate Notes (the "Notes")

issued by BTM (Curacao) Holding

N.V. (formerly known as Bank of

Tokyo (Curacao) Holding N.V.), a

Netherlands Antilles corporation

incorporated in Curacao (the "Com-

pany"), that pursuant to Condition (g) of

the Terms and Conditions of the

Notes, the Company has elected to redeem,

on the next Interest Payment Date falling

on September 29, 1997, all of the Notes then

outstanding at the principal amount thereof.

Payment of the principal amount of

each of the Notes will be made on or after

September 29, 1997 upon presentation

and surrender of the Notes, together with

all coupons representing the same, to the

agent for the Notes at the office of

Bank of Tokyo-Mitsubishi Trust

Company, 2 Rector Street, New York, New

York 10006 or at the principal office in

the city indicated of any of the following

paying agents:

Bank of Tokyo-Mitsubishi

(Switzerland) Ltd., Zurich

The Bank of Tokyo-

Mitsubishi Ltd., Brussels

Bank of Tokyo-Mitsubishi

(Luxembourg) S.A., Luxembourg

The Bank of Tokyo-

Mitsubishi Ltd., London

The coupon for interest payable

on September 29, 1997 should be de-

tached and presented for payment in

the usual manner.

ON AND AFTER SEPTEMBER 29,

1997 INTEREST ON THE NOTES

WILL CEASE TO ACCRUE.

BTM (CURACAO) HOLDINGS N.V.

BY: BANK OF TOKYO-

MITSUBISHI TRUST

COMPANY, as Trustee

Dated: August 28, 1997

ING poised to buy Furman Selz

By John Authers
in New York

ING Barings, the Netherlands-based bank, is set to announce today it has agreed to buy Furman Selz, a Wall Street brokerage, for a price probably in excess of \$250m.

The deal would be the latest acquisition of brokerages and investment banks by large international banks and US retail banks, and takes advantage of a liberalisation in the rules for cross-ownership announced by the Federal Reserve this year.

Neither ING nor Furman

Selz, which is privately held, were prepared to comment yesterday on speculation that an announcement was imminent. However, the board of managers at ING, which would decide on the acquisition, was understood to be due to meet this morning.

The acquisition is likely to be similar to others already announced this year and to include delayed payments over up to five years which would be paid into a fund. This would ensure retention of senior personnel, a key issue when buying an investment bank.

Furman Selz was founded in 1973 and has about \$100m assets under management. It has a strong reputation on Wall Street for its equity research, which would be one of the most valuable prizes for ING. It also offers a balanced range of investment banking services, including mergers and acquisitions.

Furman Selz would sharply improve ING's capacity to distribute equity in the US, where there is still buoyant demand from institutional and private investors for shares in initial public offerings.

If confirmed, the deal would mark the seventh acquisition of a securities firm by a commercial bank since March when the Fed changed its rules.

The change was regarded as one of the most significant alterations yet made to the so-called Glass-Steagall Act of 1933, which barred retail banks from deriving earnings from securities.

The Fed now allows the banks to regulate to derive up to 20 per cent of their income from a "Section 20" subsidiary, which can underwrite securities.

ING is following Swiss

Bank, which outdid it to buy Dillon Read this year, and Canadian Imperial Bank of Commerce, which bought Oppenheimer, both Wall Street securities firms. Analysts expect more acquisitions by large international banks keen to gain a stronghold in the booming US securities industry.

Several acquisitions have been made by large US retail banks aiming to broaden the range of corporate finance products they can offer, and thus avoid losing medium-sized corporate clients once they wish to float on the market.

Top-level shake-out at Habib Bank

By Farhan Bokhari
in Karachi

Pakistan's state-owned Habib Bank is planning to restructure its top management, cutting almost by half the number of layers and substantially reducing the number of its divisions.

The move is the latest in a series of measures to reduce Habib's 32,000 workforce by almost a third.

The restructuring plans were set in motion this week when 1,100 senior staff members, including 140 senior vice-presidents and 300 vice-presidents, were forced to retire.

INTERNATIONAL NEWS DIGEST

Chip arm holds back Nan Ya

A loss at its microchip arm held back growth in first-half profits for Nan Ya Plastics, the Taiwanese petrochemical concern, masking strong operating gains in electronics and polyester. In the six months to June 30 turnover climbed from T\$43bn a year earlier to T\$45.9bn (US\$1.6bn), while pre-tax profits edged up from T\$4.2bn to T\$4.3bn. The company attributed the increase to higher profits in printed circuit boards and chemical fibres. Sales rose mainly as a result of increased sales of printed circuit boards and plastics products. Nan Ya Technology, which makes D-Ram (dynamic random access memory) chips, saw first-half losses of T\$370m. The chip arm is expected to break even in the fourth quarter of this year.

Operating income jumped nearly 22 per cent, chiefly because of expanding output of copper-clad laminates and printed circuit boards. Analysts predict net profits will climb 7-10 per cent in 1997 and 35 per cent in 1998.

Laura Tyson, Taipei

HONG KONG

Television Broadcasts up 15%

Television Broadcasts, Hong Kong's largest broadcaster, yesterday announced net profits of HK\$205.21m (US\$26.5m) for the six months to the end of June, a rise of 15 per cent, and gave an optimistic forecast for the full year. "In the local economy we see signs of continued improvement in advertising spending and expect continued progress in profits during the second half," said Sir Run Run Shaw, chairman.

Turnover during the period totalled HK\$1.47bn, compared with HK\$1.33bn in the first half of 1996. Earnings per share climbed from 42 cents to 49 cents, while the interim dividend was held at 20 cents.

John Ridding, Hong Kong

PAY-PER-VIEW

INL in NZ\$308.9m takeover

Independent Newspapers Limited, the publisher controlled by Rupert Murdoch's News Corporation, is to take effective control of Sky Television, New Zealand's dominant pay-to-view media channel. INL is paying NZ\$308.9m (US\$199m) for 147m shares, or 48 per cent of the company, valuing the channel at NZ\$643m.

Sky has yet to make a profit but is expected to make a modest one this year after last year's NZ\$20m loss. Mike Robson, INL managing director, said the decision to buy no more than 48 per cent was due to a desire to keep the purchase off the company's balance sheet. INL is buying the 51.13 per cent in Sky owned by the HTP Partnership, a consortium that includes Time Warner, TCI, Bell Atlantic and Ameritech. It will then resell 3.12 per cent to other Sky shareholders.

Terry Holl, Wellington

THAI BANKING

Siam City to double capital

Shares in Siam City fell 10 per cent to B49 on news that the Thai bank is doubling its capital to B420b (\$35bn). Siam City is to issue 559m new shares at 10 baht par value.

The bank said it would use the proceeds to extend long-term loans to the industrial sector. "The capital increase shouldn't come as a surprise, because Siam City has among the lowest capital adequacy ratios in the sector," said Steve Sloman, banking analyst at Nava SC Securities Asia.

AP-DJ, Bangkok

TAIWANESE MICROCHIPS

Groups cushion first-half losses

Taiwanese chipmakers cushioned first-half operating losses caused by a cyclical decline in the semiconductor industry with profits from the country's booming stock market.

Winbond Electronics, one of Taiwan's biggest chip-makers, saw net profits fall from T\$2.1bn to T\$1.2bn (US\$42m), while first-half sales fell 43 per cent from T\$6.9bn to T\$4.7bn. However, non-operating profits of T\$1.1bn combined with a T\$1.0bn tax credit helped reverse a loss of T\$888m at the operating level, analysts said. Most of the non-operating profits came from share trading gains.

Net profits at Macronix, another leading Taiwanese chip maker, fell 72 per cent in the first half from T\$1.8bn to T\$322m. Turnover dropped from T\$5.3bn to T\$3.9bn. On August 19, the company lowered its 1997 pre-tax profit forecast 50 per cent from T\$2.6bn to T\$1.3bn, pointing to competition and price fluctuations.

Laura Tyson

Canadian banks exceed forecasts

By Scott Morrison
in Vancouver

Canadian banks have posted stronger than expected third-quarter profit increases as North America's surging economy has led to volume gains larger than analysts had expected.

Securities trading and investment operations have also contributed to earnings that have so far either equalled or surpassed expectations of profit advances of 13-20 per cent.

Royal Bank, Canada's largest, reported net income of C\$42m (US\$307m) in the third quarter, up 20 per cent from the same period last year. Revenues reached C\$2.39bn for a return on common shareholders' equity of 19.3 per cent compared with 17.2 per cent a year ago.

The Bank of Montreal, the country's third-largest institution, posted net profits of C\$372m, a 24 per cent increase. Revenues totalled C\$1.86bn for a return on equity of 19.1 per cent.

Bank of Nova Scotia, Canada's fourth-largest and most international bank, earlier reported a 40 per cent jump in net income to C\$344m on revenues of C\$1.63bn, giving a return on equity of 20.3 per cent after interest costs but before loan losses.

Canadian banks have continued to produce strong results after profit increases averaging 28 per cent for the year to October 31 1996.

Royal Bank's third-quarter loan growth, investment banking fees and trading revenues contributed to its record profits. Total loans and bankers' acceptances rose C\$2.2bn, or 18 per cent, from a year ago.

The bank again exceeded targets as a result of favourable economic and capital market conditions, which resulted in strong performance from all businesses, said John Clegburn, Royal Bank chairman and chief executive.

Royal Bank's total assets increased C\$35.6bn from a year ago to reach C\$245.5bn at July 31 1997, while market capitalisation stood at C\$20.4bn, the highest for a Canadian financial institution and almost double the \$10.4bn at July 31 1996.

Securities trading contributed significantly to the Bank of Montreal's third-quarter result. Treasury operations, which include foreign exchange and securities trading, added C\$100m to the bottom line, up from C\$80m the year before.

Corporate and investment banking contributed profits of C\$41m, up from C\$32m last year. Canadian consumer and small business operations, however, recorded a profit of C\$130m, down from \$134m the year before, while Montreal's electronic banking division saw profits decline from C\$59m to C\$43m.

Bank of Montreal's assets increased to C\$196m at the end of the third quarter from C\$182m a year ago.



Ready for action: Vicenza, one of Italy's few profitable first division clubs, hopes to be listed within 12 months

Vicenza ahead in listing game

By Paul Betts in Milan

Vicenza, the Italian premier league football club acquired in June by a UK investment company, is set to become the first Italian club listed on the Milan stock market.

The club, the first in football-crazy Italy to fall into foreign hands, has called a shareholders meeting for September 12 to approve a capital increase and prepare its application to Consob, the Italian stock market watchdog, for a listing on the Milan bourse.

The increase will raise the club's capital from L7.5bn (\$42.7m) to at least L10bn, the minimum required for a stock market listing.

Stephen Julius, managing director of Stellcan, the London-based investment

company which acquired with partners the club for L22.7bn, said yesterday that the Italian IMI Slegco investment bank had been given the mandate to prepare the club for flotation.

"We are still at the early stages of a long procedure but we hope to be listed within the next 12 months," he said.

Several bigger and more famous Italian clubs such as Bologna, Juventus, Inter, AC Milan, and Lazio are considering listings in London or Milan, but Vicenza is in pole position because it is one of the few profitable first division clubs in Italy.

Under Italian stock market rules, a company must show profits for three consecutive years before it can be listed. Vicenza broke even in

1994/95, made a profit of L3.2bn in 1995/96 and is expected to make a similar profit in 1996/97.

The club does not expect the 1994/95 figures to pose a problem for its application. In any case, the Italian stock market, due to be privatised next month, is expected to change the current listing rules to attract more companies.

Mr Julius said Vicenza was opting for the Milan rather than the London market because an Italian listing would make it easier for local fans to buy shares.

Vicenza last season came eighth in the Serie A (the Italian premier league) and won the Italian cup.

It is based in the rich, north-eastern region of the country.

Vicenza's new British owners plan business initiatives to develop the club's revenues through merchandising, sponsorships, and catering. They are also in talks to buy the club's stadium from the local council.

"We want to apply the Anglo-Saxon model to Italy," said Mr Julius. "On the football side, the Italians have little to learn from us; but on the business side - how to develop revenue streams and stable earnings - they can learn a lot from our system."

The other shareholders in the club are English National Investment Company (Enic), which also owns a 25 per cent stake in Glasgow Rangers, and two agencies involved in the management of television rights.

Fort Bonifacio sees sharp rise

By Justin Marozzi in Manila

Fort Bonifacio Development Corporation (FBDC), which owns the Philippines' largest property project, yesterday forecast a four-fold rise in net profits for 1997 and announced plans to launch a \$200m eurobond within the year.

Ricardo Pascua, president and chief executive, said he expected profits to leap from 1.1bn pesos to at least 4.2bn pesos (\$140m).

Most of the year's revenues would come from the part-payment of 15.4bn pesos from last year's sale of 16 hectares of land worth 28.4bn pesos. This sale represented the original five-year sales target, giving FBDC more control over the choice of future corporate tenants, he added.

The upbeat forecast comes as the Manila stock exchange - which is heavily weighted towards property stocks - struggles to combat bearish sentiment in south-east Asian bourses. The market closed down again yesterday and the peso sank further to reach a record low against the dollar.

Fort Bonifacio is an ambitious 214ha project intended to replace Makati as Manila's leading central

business district. FBDC is a joint venture between the government and a private-sector consortium led by Metro Pacific, the Philippine arm of Hong Kong's First Pacific group.

Mr Pascua said Merrill Lynch and Bankers Trust, the US investment banks, would be joined by Philippine National Bank as advisers for the \$200m eurobond issue. "We would like to introduce ourselves to the capital market, both locally and internationally. We want to go with it within the year," he said.

Proceeds would go towards infrastructure and utility development.

An analyst in a foreign brokerage said raising debt on the capital markets was now the best option for Fort Bonifacio. "They're trying to stop selling land now because they don't like prices, but they still need to finance the horizontal development of the project. This \$200m eurobond will really be a testing ground and set the trend for how they can mobilise debt."

Fort Bonifacio is required to list by 2000 but might go public much earlier, Mr Pascua said. Depending on market conditions it would perhaps float in 1998.

Indian tobacco group refocuses

By Kunal Bose in Calcutta

ITC, India's largest tobacco group, is reorganising its businesses to focus on cigarettes, travel and tourism, packaging and paper.

ITC, which is 33 per cent owned by BAT Industries of the UK, made the mistake of diversifying into financial services, international trading and edible oils when the economy was closed, Yogesh Chander Deveshwar, chairman, said yesterday at the company's annual general meeting.

"Instead of being in too many things which are not sustainable in the present business environment, we will be focused on businesses where we can compete effectively and build a dominant market position," he added.

The globalisation of the Indian economy and fierce competition have led management to "identify the core businesses to support in the future," Mr Deveshwar said.

The portfolio will be subject to periodic review to ensure that the businesses are "internationally competitive." ITC also plans to forge technical and management alliances with foreign companies.

In non-core areas, ITC hopes to bring in foreign partners, with a view to selling its stakes in its two troubled associates, ITC Classic Finance and ITC Agro-Tech. However, Mr Deveshwar said that "as a good corporate citizen" ITC would try to bail out the separately listed companies, which would take about three years.

ITC has reached an agreement with BAT on the manufacturing and marketing in India of two of its leading brands, 555 State Express and Benson & Hedges, but the deal is awaiting approval by the federal government.

Mr Deveshwar said local manufacture "will help curb the smuggling of foreign cigarettes into the country. India suffers a foreign exchange loss of \$33bn (\$35m) because of smuggling of cigarettes."

Both BAT and ITC will have to invest heavily to develop the brands in India. Net profits in 1996-97 were up 33 per cent to Rs3.47bn on turnover ahead 14.61 per cent to Rs58.63bn. Operating cashflow doubled to Rs4.199bn.

Mr Deveshwar forecast strong growth in sales and profits in the first half to end-September.

Siam Cement hit by currency losses

Siam Cement will pass its interim dividend after heavy foreign exchange losses pushed the Thai conglomerate into second-quarter losses of Bt5.51bn (\$162m), against a comparable net profit of Bt1.69bn, agencies report from Bangkok.

In 1996 the company paid an interim dividend of Bt10 a share.

The baht has fallen about 30 per cent against the dollar since it was floated on July 2, and Siam Cement said its loss from foreign exchange

totalled Bt4.92bn in the quarter.

The company has foreign-denominated loans of \$4bn, \$1bn of which are short term.

Eric Henderson, analyst at ING Barings, said the earnings were stronger than expected, indicating that Siam Cement had not written off all its prospective foreign exchange losses in the second quarter. He expected further foreign exchange losses to be written off in the third quarter.

Chumpol Na Lamliang, Siam Cement president, said the company would lose between Bt2.4bn and Bt2.5bn for every baht the Thai currency slips against the dollar.

Due to the weakening currency and the general economic malaise, Mr Chumpol said the group would halt investment in new projects over the next few years.

"This is the worst situation we have ever faced," Mr Chumpol said. "The last time the government deval-

ued the baht there were mainly external problems. Now we have problems both inside and outside the country."


Mr Chumpol said Siam Cement had adopted two strategies to survive Thailand's economic slowdown - increasing exports and raising prices. He said sales from exports and overseas projects generally accounted for 15 per cent of total sales revenue. But this year and next it would make up 25 per cent.

"Our situation is like that of our country," Mr Chumpol said. "We need foreign markets to survive."

Products linked to the world market, specifically petrochemical products and paper, would rise in price by the same amount the baht had depreciated - roughly 23 per cent at the moment, he said.

First-half consolidated net loss was Bt3.6bn, compared with a net profit of Bt4.4bn in the first six months last year.

The Leading Edge in Asia Pacific



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US\$100,000,000

1/4 per cent. Convertible Bonds due 2007

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WHS keeps record chain options open

By Christopher Price

WH Smith yesterday refused to rule out the sale of the Virgin Our Price record chain and admitted its new chief executive might wish to undertake a strategic review of the retail group just over a year after the one conducted by the former incumbent, Bill Cockburn.

However, Jeremy Hardie, chairman, said all the candidates interviewed for the vacant post had expressed support for the management's strategy and he did not expect a review immediately. But he added: "I would not be surprised if after six months, he or she said to me 'I want to change things'."

Mr Hardie refused to be drawn on when the chief executive post would be filled, except to confirm the candidature of Stuart Rose, the former Burton executive, and three internal applicants.

His remarks came as the group unveiled a return to the black, reporting annual pre-tax profits of £51m (£83m), against losses of £194m the year to May 31 1996. Before exceptional items, Smith made profits of £124m, a rise of 38 per cent, on flat sales of £2.76bn.

He said the future of Virgin Our Price was undecided. Four months ago the company rejected an offer of £135m from Virgin Group, its minority partner, for the 75 per cent of the venture owned by Smith. Although Smith has an option to buy Virgin out in 1999, Mr Hardie said: "Who can say what will happen then?"

However, the question mark over the record chain will fuel speculation over the possible break-up of the group. Keith Hamill, the group's finance director who has withdrawn from the chief executive race, said yesterday there was no break-up plan.

While he admitted some shareholders had questioned the company about the issue, none of the group's big institutional investors had raised the matter.

The results showed a 5 per cent profit increase in the high street business, to £43m on sales 1 per cent higher at £785m. Waterstone's book chain reported an 11 per cent increase in sales to £200m with profits rising 33 per cent to £20m. The wholesale newspaper division produced

a 42 per cent increase in profits to £44m on sales up 5 per cent at £925m.

The results came at the bottom end of market forecasts, largely because of a larger-than-expected pension write-off. Smith wrote off a £73m pension pre-payment, built up on the balance sheet thanks to a pension holiday, because of the uncertainty over valuations created by July's budget.

Lex, Page 10

Concern over GEC shares plan French merger lifts Kalon

By Charis Gresser

The General Electric Company has run into concern from some institutional investors over a new share option scheme for its most senior executives.

Last year, the company toughened up an incentive package for its new managing director, George Simpson, to quell a damaging shareholder revolt.

Part of the new share option scheme, for which Mr Simpson will not be eligible, has drawn fire from a number of investors, who describe the performance cri-

teria as too soft.

Under the proposals, certain options will be exercisable on a sliding scale from 35 per cent to 100 per cent, if GEC's performance over any consecutive five-year period places it between the median (50th place) and the top 25 per cent relative to the FTSE 100 companies. The criterion used to measure performance is total shareholder return, which is the increase in share price plus dividends.

GEC also has to meet a second performance criterion: earnings growth over five consecutive years has to

match or exceed growth in the preceding five-year period.

One large institutional investor, who declined to be named, said: "Super options are designed to incentivise executives for achieving top-notch performance. My understanding is that these options can provide significant rewards for merely average performance."

The investor continued: "We are concerned about this. Our position at the moment is that we are minded to vote against this scheme."

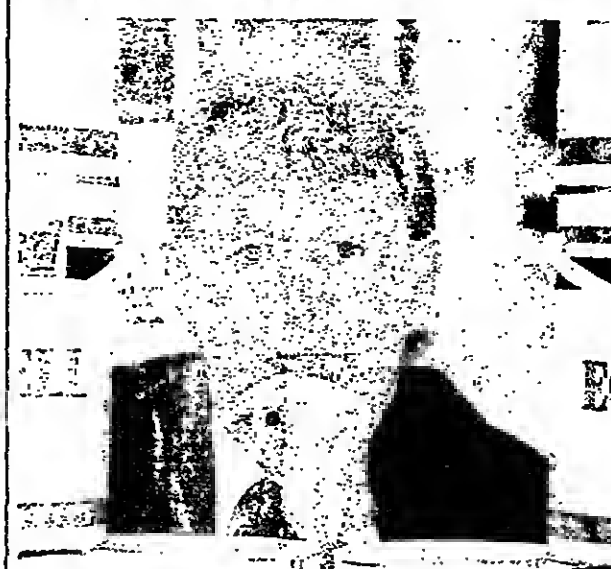
Another smaller institu-

tion, NPI, said it was voting against the scheme. "We object to this 35 per cent level on average performance. It's not good enough."

A number of other institutions, however, backed GEC. One said: "Our view is that we would rather have this scheme in place than not."

GEC said it had the "endorsement" of some of its largest shareholders, although not enough proxies to carry the vote, to be taken at the annual meeting on September 5.

Lex, Page 10



Mike Hennessy: looking for acquisitions

By Roger Taylor

Kalon, the paints group, announced its intention to focus more aggressively on sales as it reported a 12 per cent drop in turnover in the first half.

However, savings from its 1995 merger with Euridip of France were ahead of expectations, and this had more than offset the downturn in sales, helping it produce a 24 per cent increase in pre-tax profits to £24.4m (£30.8m) for the six months to June 30.

Mike Hennessy, managing director, said the company was keen to take steps to increase its top line revenues.

These included acquisitions in new markets such as Germany, the development of more sales outlets for trade buyers, and greater

emphasis on marketing and brand development. With gearing reduced to 21 per cent, it had the necessary resources to expand, he said.

Most of the downturn in sales was the result of the high level of sterling. Excluding this, turnover was down just 2 per cent.

Profits were lifted by a strong improvement in operating margins as a result of the restructuring following the merger with Euridip, formerly part of Total.

At the time, the company predicted cost savings of £10m a year, but yesterday it said it would beat this achieving savings of £14.5m by the end of this year and £23.5m by the end of 1998.

Kalon has closed three factories in the UK and reorganised its distribution in France.

Keller restricted by strong pound

By Emiko Terazono

The strength of sterling affected profits at Keller, the ground engineering specialist, restricting the first-half pre-tax outcome to a 2.2 per cent rise to £4.7m (£7.7m).

Although turnover and operating profits rose by 10 per cent in local currency terms, the rise in the pound led to translation costs of \$300,000, said Rob Painting, finance director. Translation

costs for the full year are expected to total \$800,000 if the pound remained below DM5, he said.

Revenues for the six months to June 30 rose 1.7 per cent to £117m. Operating profit margins remained almost flat at 4.2 per cent.

Keller said the strength in the US and UK markets had offset weakness in continental Europe. Difficult market conditions in Germany, including intense competi-

tion in Berlin, hit profit margins.

The group's continental Europe and overseas division reported an 88 per cent decline in operating profits to £75,000 on an 85 per cent fall in turnover.

In the UK, operating profits were more than doubled to £151m, leading to a rise in operating profit margins from 3.7 per cent to 5 per cent. Operating profits in the US increased by 7 per cent

with margins firm at 7.9 per cent.

The company expects conditions in Germany to stabilise in the second half, with an improved performance from its continental European division.

Dresdner Kleinwort Benson, the house broker, is forecasting full-year pre-tax profits to rise 6.4 per cent to £13.3m (£12.5m). The shares yesterday fell 5p to 235.5p.

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Dividend cover	Dividends (p)	Total for year	Total for year
Bentley	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
Boots	2,937	1,714	14.2	7.6	1.8	10.7	10.7	10.7
British Telecom	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT Group	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT plc	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT Group	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT plc	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT Group	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7
BT plc	1,144	1,714	14.2	7.6	1.8	10.7	10.7	10.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. *After exceptional credit. †On increased capital. ‡Foreign income dividend. \$US dollar. £Sterling.

CONTRACTS & TENDERS



Request for Expressions of Interest LIONS GATE PROJECT

The BC Transportation Financing Authority is seeking Expressions of Interest

To develop, design, construct, operate and maintain a new or rehabilitated four lane crossing of the First Narrows between the City of Vancouver and the North Shore of Burrard Inlet

Request for Expressions of Interest documents are available at the first floor reception desk, Ministry of Transportation and Highways, 7818 Sixth Street, Burnaby, British Columbia, Canada V3N 4N8.

A \$20.00 payment is required in the form of cash, certified cheque or money order for each copy of the document. An additional \$1,000.00 payment is required to become a "Registered Party". Certified cheques or money orders are to be made payable to the BC Transportation Financing Authority. All payments are non-refundable.

An information meeting for "Registered Parties" will be held at a date to be scheduled in the Request.

The Request for Expressions of Interest is for the pre-qualification of Proponent teams to develop, design, construct, operate and maintain the Project.

The teams will require expertise in the following areas:

- Project Development and Management
- Traffic Engineering, Management and Control
- Design and Construction of:
 - Long Span Bridges and Cables
 - Major Steel Bridge Retrofitting and Erection
 - Tunneling and Underground Civil Works
 - Highways, Toll Systems and Facilities
- First Nations relations, and cultural heritage interests
- Environmental Management
- Operation and Maintenance of:
 - Roads, tunnels and Long Span Bridges
 - Toll Highways and Bridges
- Communications and Public Relations

The submissions of Expressions of Interest will be evaluated, and short-listed teams will be invited to submit comprehensive proposals.

The submissions must specifically address the requirements set out in the Request for Expressions of Interest documents. Submissions must be received by October 21, 1997.

Information: Phone: 604-660-1516 Internet: www.lionsgateproject.com

BCTFA
BC Transportation
Financing Authority

Cassandras confounded by changes to ACT

Jane Martinson on responses to the tax credit abolition

Proponents of the theory that markets move in logical ways appear to have been dealt a blow in the past two months.

Cassandras had a field day after the Budget abolition of the advance corporation tax credit for dividends paid to most institutional investors. Many instead of falling 10 per cent as predicted by these gloomy analysts, the FTSE All-Share Index has risen by more than 3 per cent since July 1.

Although this could partly be explained by market adjustment in anticipation of the abolition, it also has to do with the complexities of asset allocation.

Nor has the market's contrariness weakened the warnings from industry consultants and fund managers. Many still believe that a fundamental change is going to take place in the UK market.

Research by Bacon and Woodrow, the fund management consultancy, suggests that the abolition of ACT credit will cut the real rate of return from UK equities by some 30 basis points to 5.7 per cent this year.

Such statistics have prompted several consultants to predict that pension funds - which hold about 40 per cent of UK shares - will move money out of stocks into other forms of investment, notably fixed income or bonds.

A survey of fund managers by Merrill Lynch revealed that sellers of UK equities outnumbered buyers by 18 per cent in July, the widest majority recorded this year. The global strategy survey also found that this trend was reversed in their holdings of gilt-edged stocks: buyers outnumbered sellers by 29 per cent.

The money coming out of UK equities is finding a variety of new homes. In its August investment report, Scottish Equitable, the fund management group, announced that it had decided to reduce the holdings of UK equities in its managed funds, partly as a

result of the ACT change. Mr Russell Hogan, chief investment officer, said: "Some of the proceeds from this move will be held as cash, but we have also increased investment in European equities and UK gilts."

Bacon and Woodrow expects pension funds to reduce their holdings in UK equities by between 5 and 10 percentage points from an average holding of between 55 and 60 per cent earlier this year. As pension funds hold some £700bn in UK equities, a 10 percentage-point cut could take £70bn from the market.

Mr Geoff Lindey, head of UK institutional investment at JP Morgan, says that while a reduction of 5 per cent over the next 18 months might be taken up by other investors, anything more would be difficult to accommodate. "If it's a 5 per cent shift it's a lot of money, but it depends on the reaction of other people. Are the Americans going to come and buy? Are companies going to buy their own equity?"

The enthusiasm of other buyers for UK shares is one reason why the market appears not to have performed as badly as expected since the Budget. Market analysts point to strong demand from other types of investor, such as US funds and individuals who are unaffected by the ACT change.

Companies are also expected to refinance with a greater proportion of debt to equity as debt becomes relatively cheaper.

UBS, the brokers, argued in a report last week that up to £100bn could be spent by British companies in share buy-backs over the next few years.

The main reason for the market's apparent failure to support the predictions so far is that pension funds are inherently

slow-moving, they say.

The creeping nature of change is partly because of the actuarial basis of the industry. Actuarial valuations of pension funds, which assess liabilities and the assets needed to meet them, are carried out once every three years.

This system was described by one fund manager as providing an in-built lagging device slowing shifts in asset allocation.

The arcane calculations used to value the funds have been made even more complicated by the minimum funding requirement demanded by the 1995 Pensions Act and passed earlier this year. This will force funds to match future assets and liabilities and is designed to prevent funds from falling below a minimum threshold.

Until the ACT change these calculations were based on the gross returns from shares. The Budget changes have thrown the industry into turmoil as actuaries wait to hear how they should treat the long-term returns of equities.

As significant shifts in pension fund allocations typically cost millions of pounds, consultants believe that some pension funds are waiting for the next revaluation to fully compute the impact of the tax cut.

There is evidence that the move out of UK equities by UK institutions started before the Budget announcement, partly because of the fear of an inflated market. These signs of shift, combined with the Budget, look set to make the future more difficult for UK shares.

As one senior fund manager put it: "One thing is certain. In two or three years from now, the UK equity market will be much lower than it would have been."

NEWS DIGEST

Kalamazoo backs US rescue plan

Kalamazoo Computer Group yesterday warned it would be close to breaching its banking facilities unless shareholders approved a £17.7m (\$28.9m) cash injection by Reynolds and Reynolds of the US.

Kalamazoo, which specialises in computer systems for motor dealers, said it was facing first-half trading losses of about £8m but would return to the black in the second half. The losses would be offset by an exceptional £3.4m profit from the sale of its printing division to Adare Printing last month.

The Birmingham-based company blamed its losses on the high cost of developing a second generation of its flagship Elite software. Reynolds, which also specialises in computer systems for motor dealers, is subscribing at 130p a share for 13.6m new Kalamazoo shares as part of a package including an alliance in product development and sales.

It is also tendering for 2.99m existing shares at 130p, which would give it a 26.5 per cent stake in Kalamazoo. However, there are restrictions on the US group increasing or selling its stake in the next two years. The shares closed up 9 1/2p at 85p.

The US company would become the second largest shareholder after the Kalamazoo Trust, which currently holds 40 per cent of the shares on behalf of past and present employees.

Richard Wolfe

Mixed signals from Marley

Second-half profits at Marley, the building materials group, would be at similar levels to the same period last year, David Trapnell, chief executive, said yesterday.

His remarks sent mixed signals to the City, despite an 11 per cent rise in operating profits to £28.8m (£46.9m) for the six months to June 30. A number of analysts downgraded their full year pre-tax profit forecasts to about £50m after a meeting with the company to discuss the results.

The shares fell 5 1/2p to 109 1/2p. Mr Trapnell later protested that the reaction to his comments were exaggerated and said the outlook for the year was positive.

Deprived of a £42.6m gain from the sale of its automotive components business in the same period last year, Marley's pre-tax profits fell 61 per cent to £24.5m. Stripped of exceptional items, profits rose 19 per cent. That was despite a £2.5m penalty imposed by the strength of sterling. Marley earns almost three-quarters of its profits outside the UK.

By region, operating profits showed double digit gains in the US, Germany and the UK. In New Zealand, however, weak demand from the agricultural sector depressed profit margins.

The company had net debt of £71m. Gearing was 24 per cent on June 30, although Mr Trapnell said this has since risen to more than 30 per cent after the purchase earlier this month of Flexco, a US flooring business, for \$39.2m.

Emiko Terazono

British-Borneo stake buy

British-Borneo Petroleum Syndicate, the oil exploration company, has acquired a majority interest in a field under development in the Gulf of Mexico. It is paying \$37.5m for the 60 per cent interest in the Allegheny Field. Development off the coast of Louisiana, which it will operate.

The partners are taking over the field from Enserch Exploration and Mobil Exploration & Producing, both of which held 40 per cent stakes. Reading and Bates is raising its stake from 30 per cent.

British Borneo estimated that the Allegheny Field reserves amounted to 82m barrels of oil. The company believes there is potential for it to book 31m barrels of oil as a result of the acquisition.

British Borneo shares closed up 14p at 473 1/2p.

James Blizz

Restructuring buoys Uglund

Uglund International Holdings nearly doubled first-half profits after a restructuring last year focused the shipping group on its core activities.

However, underlying earnings per share fell by a quarter to 4.8p because of the dilutive effect of last year's \$54.4m placing to acquire seven car-carrying ships.

Pre-tax profits for the six months to June 30 were £22.2m (\$10.1m), up 94 per cent on last time's £12.2m, on revenues ahead 57 per cent to £47.3m.

Uglund's new vehicle carrier division, which ships cars for manufacturers, contributed profits of £10.7m (\$509,000) on turnover of £18.95m (£1.58m like-for-like). The other core business, refrigerated (reefer) vessels, contributed £2.97m (£3.67m) on turnover of £13.7m (£16.7m). Liner services lost £2.8m and container carriers was \$385,000 in the red, including an exceptional loss of \$749,000 on the disposal of Uglund International Norway. Jonathan Palmer, chief executive, said the group intended to sell the liner services business.

FLEMING FLAGSHIP PORTFOLIO FUND

Société d'Investissement à Capital Variable
European Bank & Business Centre, 6, rue de Trèves
L-2653 Senningerberg, Grand Duché de Luxembourg
R.C. Luxembourg No. B15251

Annual General Meeting

NOTICE is hereby given to Shareholders of FLEMING FLAGSHIP PORTFOLIO FUND ("the Company"), that the Annual General Meeting will be held at the registered office of the Company at European Bank & Business Centre, 6, rue de Trèves, L-2653 Senningerberg, Grand Duché de Luxembourg on Wednesday 24 September 1997 at 2.00 p.m. or at any adjournment thereof for the purpose of deliberation and voting upon the following agenda:

1. Submission and approval of the Report of the Board of Directors and of the Auditor;
2. Submission and approval of the Annual Report for the financial year ended 30 April 1997;
3. Discharge of the Directors and Auditor in respect of their duties carried out for the year ended 30 April 1997;
4. Election of Directors and Auditor;
5. Allocation of profits for the financial year ended 30 April 1997;
6. Any Other Business.

Resolutions on the agenda of the Annual General Meeting will require no quorum and will be taken at the majority of the Shareholders present or represented.

A Shareholder entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a Shareholder of the Company.

In order to be entitled to attend the meeting, holders of bearer shares must deposit their bearer share certificates five working days prior to the meeting with the following institution:

Kreditbank S.A., Luxembourg, 43, boulevard Royal, L-2255 Luxembourg

Shareholders who cannot personally attend the meeting may use the prescribed form of proxy (available at the registered office of the Company) and return it at the latest, the day preceding the meeting to the Company, c/o Fleming Fund Management (Luxembourg) S.A., L-2653 Luxembourg, or telefax +352 3410 2107.

By Order of the Board of Directors
August 1997

FLEMINGS

Huge sea-worthy bags offer a solution to water shortages, writes Marcus Gibson

Thirsty work

Giant sea-going barges, 107m long and made of polyurethane and PVC just 1.5mm thick, will transport large quantities of fresh water later this year from Turkey's southern port of Antalya westward to the country's drier regions.

The vessels were designed and built by Norwegian Water Supply (NWS), based in Oslo, and may be the beginning of a new global industry in clean water transport.

For the past two years NWS has been towing bags of water up and down the 200km Sogne Fjord near Bergen, the longest and deepest stretch of water in Norway, to assess which materials could withstand the enormous physical stresses involved.

It also needed to master the sea-handling qualities of a water-tight bag containing 10,000 tonnes of water. "We had no idea what the turning circle of such a craft might be," says Jan Halvorsen, NWS's managing director. "Nothing on this scale has ever been attempted before."

Although the thin plastic was not new, the Norwegians developed and patented a method of welding the material on the scale required.

"Even though it is very thin it has the strength of steel when

'One source is an underground river of exceptional purity... People have drawn from it since Biblical times'

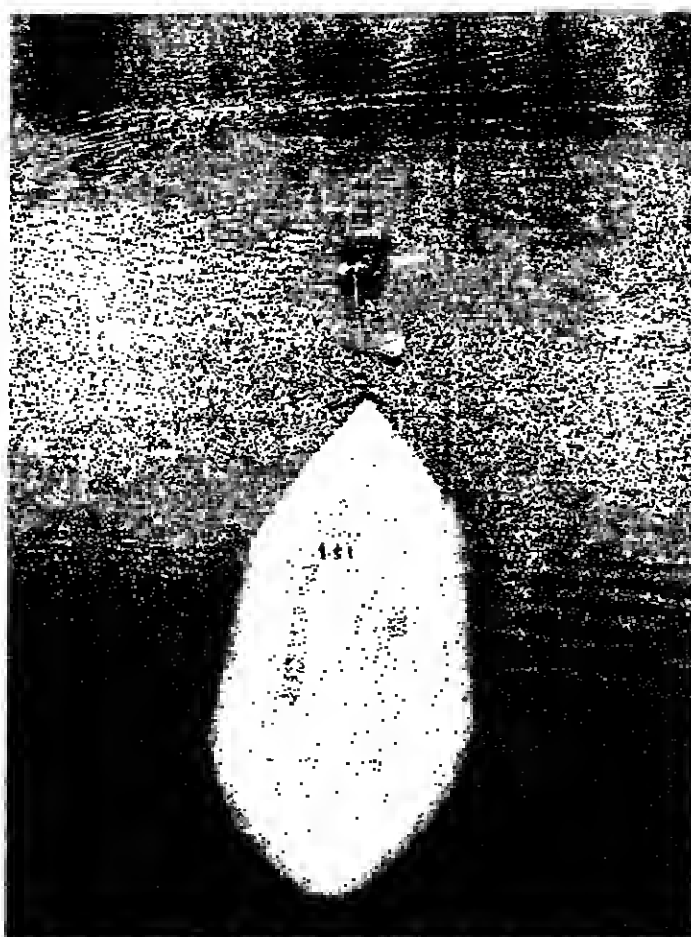
stretched," says Mr Halvorsen. NWS has orders for up to eight vessels from Turkey, whose ministry of hydropower and water supply jointly funded the \$10m (\$8m) research project.

Although the first two vessels will be just over 100m long, later variants in the Turkish order will be far bigger, and capable of carrying 30,000 tonnes of fresh

water. Yet the plastic material will be only 0.5mm thick.

When empty, the vessels can be rolled up and transported by road in standard 40ft containers. Each vessel weighs just nine tonnes, except for the steel section which links it to a tug.

At first, the Turks intend to serve their own domestic needs, but hope to supply eastern Mediterranean countries such as Israel, Syria and Lebanon, whose water supply problems are often acute, and can be the subject of cross-border tension.



In the bag: a seafaring water-tight container can carry 10,000 tonnes of water

Turkish engineers have already identified a number of water sources around Antalya with an almost limitless capacity. "One is an underground river of exceptional purity," says Mr Halvorsen. "People have drawn from it since Biblical times." Pumping water into the vessels moored along the coast has not proved a problem. NWS harnessed the offshore engineering expertise of Intercon, another Norwegian company, which has long experience in constructing floating buoy stations for the North Sea oil industry.

During tests last year, NWS pumped in the outflow from the Aurland power station on the Sogne Fjord. "This one power station alone has a capacity of 700m

tonnes of water a year," says Mr Halvorsen.

Norway's southern fjords, although much closer to potential markets, contain water that is more acidic, with the possibility of trace contamination from pollution. "We can adjust the pH values [acidity] to what the consumer wants," he adds.

NWS intends to exploit its new-found expertise elsewhere in Europe. Next spring the company is scheduled to tow a 107m bag across the North Sea from the Sogne Fjord to Rotterdam as a demonstration. In the Dutch port, a new company, Water Bedrijf Europort, will sell the contents to locals eager to taste pure mountain water.

Mr Halvorsen says plastic vessels can do the job at less than half the price of a commercial tanker. "A bag containing 60,000 tonnes could be delivered to London Bridge for as little as Nkr80,000 (\$6,570)," he said, "although smaller volumes may cost up to Nkr140,000."

Prices will vary according to volumes delivered and the distance travelled.

NWS's backers include Norwegian companies Statoil and Oslo Energi, and the company is aiming for a local stock market listing next year.

Although the idea of seaborne waterbags has existed for centuries, the real challenge has been in creating a vessel able to withstand 12m waves, and the Norwegians believe their patented welding system has helped them achieve it.

If so, the concept could soon provide a rapid, high-volume solution to the often chronic water shortages affecting countries not just in the Mediterranean but in north-west Europe.

Worth Watching - Vanessa Houlder



78385193 e-mail
Kambodur@agresearch.cri.nz

A better test for bacteria

The search for better ways of testing for bacteria in drinking water is intensifying, following several public health scares.

The University of Ghent is developing a new testing technique on behalf of Chemunex, the French biotechnology group, and the Flemish Centre for Water Research, which aims to be faster and more sensitive than existing methods. These usually involve growing a microbial culture on agar plates, which can take several days.

The approach taken by the Ghent researchers uses enzymes to mark individual cells with fluorescent labels which can then be detected using ChemScan, a laser scanning system developed by Chemunex. This promises to be a highly sensitive test because it can detect damaged cells that would be missed by traditional culture techniques.

As the test does not require an incubation period, it would allow laboratories to conduct same-day testing. Chemunex: France, tel: +33969200; fax: +33960115

Laser light on cell structures

A handheld laser device that can instantly extract information about blood cells could become a fast, ultra-sensitive means of detecting ailments such as sickle-cell anaemia, cancer and AIDS.

The device, called a biocavity laser, can detect minute changes in cell structure. It works by inserting blood samples into the laser itself to become part of the laser generation process. The blood cells modify the laser light, which can then be analysed in a spectrometer to detect changes in cell sizes and shapes.

The laser has been patented by scientists at the Sandia National Laboratories and the National Institutes of Health. Sandia National Laboratories: US, tel: 5053445606; http://www.sandia.gov

Big cows muscle in on prime breeds

A new approach to generating prime cattle breeds may be opened up by the discovery of a gene mutation that increases the proportion of muscle in cattle, according to Genome Research journal.

Scientists working at the Ruakura Agriculture Research Centre in New Zealand and the Nebraska Agricultural Research Service in the US found that a mutation in a gene called myostatin was responsible for some cattle - such as the double-muscling Belgian Blue breed - producing more muscle and less bone and fat than normal.

The discovery provides the first specific genetic information on the inheritance of agriculturally desirable traits in cattle.

AgResearch: New Zealand, tel

Clive Cookson

Tremor gene tracked down

An Icelandic gene-hunting company, set up to exploit the extraordinary homogeneity of the island's Viking population, reports its first success this week in the journal Nature Genetics.

Researchers from DeCode Genetics have tracked the gene for "familial essential tremor" down to a small area of chromosome 3. FET is an inherited shakiness of the limbs, which becomes worse with age; it is the most common neurological movement disorder, affecting 5-10 per cent of elderly people.

The research team led by Karl Stefansson, the company's president, expects very soon to find the gene itself. That would lead immediately to a new under-

standing of FET and perhaps later to effective treatments. People suffering from other movement disorders, including Parkinson's Disease, might benefit too.

DeCode - Iceland's first biotechnology company - is discussing possible collaboration with an unspecified pharmaceutical group to exploit its FET research.

At present, the cause of FET is unknown and there are no drugs to slow its progression, though brain surgery or electronic implants can help.

It took just three months from

starting the project to locate the FET gene on chromosome 3, Dr Stefansson says. "In that time we had to recruit patients, examine them, collect DNA and analyse it."

"One reason why we could work so quickly is that the Icelandic community is very tight-knit, well educated and happy to co-operate in genetic studies," he says. About 150 people from 16 families took part in the FET study.

Other advantages include Iceland's national computer database covering the genealogy of the whole population over several

centuries, and its excellent healthcare system which helps researchers to track the progression of disease. But the biggest competitive advantage for DeCode over gene-hunting companies elsewhere is the genetic homogeneity of Iceland.

"The present population descended from Vikings who settled the island 1,100 years ago, and there is very little genetic variation among modern Icelanders," says Dr Stefansson. For technical reasons, this makes it much easier to follow the inheri-

tance of genes through families in Iceland than in countries with more heterogeneous populations.

DeCode raised \$12m (\$7m) from venture capitalists in Europe and north America, though Icelandic firms hold a majority stake in the company. It employs about 50 people in Reykjavik, the capital.

The company's researchers are also on the trail of genes that contribute to several complex diseases. "Our work on multiple sclerosis is going extremely well," Dr Stefansson says.

SOUTH AFRICAN RESERVE BANK

A year of economic consolidation

Extracts from address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-seventh Ordinary General Meeting of shareholders of the Bank on 26 August 1997

The turbulence in the South African market for foreign exchange from February 1996, and the subsequent stabilisation of the balance of payments, contributed to a weakening of overall economic growth and to an upturn in inflation. The major task for monetary policy over the past year has accordingly been to restore both external equilibrium and domestic financial stability which are important preconditions for sustained investor confidence and economic growth.

The process of restoring external economic equilibrium had begun at home. Many adverse factors converged to contribute to the sudden exchange rate shock of February 1996. Some were of a non-economic nature while others were rooted in macroeconomic developments over the preceding two years. The problems caused by non-economic factors diminished as the financial system adjusted to the Constitution of the Republic of South Africa, the delay of local authority elections in certain provinces, and the political composition of the Government of National Unity were fortunately aligned during the course of the past year. Equally important has been the fact that the Minister of Finance, newly appointed in April 1996, has stood the test of the markets with acclaim and soon established himself as an effective leader of the country's overall financial policy.

The monetary policy approach adopted by the Reserve Bank under the circumstances was to let market forces take their course, with some short-term intervention by the Bank only to support an orderly process of adjustment. The exchange rate was therefore allowed to take its market-determined run while liquidity was drained from the domestic money market, interest rates were guided in a gradual upward path, and the resultant adverse consequences of the adjustment in real economic activity were accepted as essential to avoid even greater disruption later on.

A year of economic consolidation

The pattern of developments in real economic activity over the past twelve months can best be described as the outcome of a necessary process of consolidation after three years of positive growth. The rate of expansion in gross domestic product reached a seasonally adjusted annualised rate of 3 1/2 per cent in the second half of 1996, but then slowed down to only 1 per cent in the first half of 1997, indicating a lower rate of growth for the full calendar year of 1997 compared with that experienced during any one of the past two years.

During the first quarter of 1997, total gross domestic product actually declined by 1 per cent, setting off alarm bells of a pending recession. During the second quarter, however, there was a distinct recovery when overall economic activity again turned to positive growth, equal to an annualised rate of 2 1/2 per cent.

Gross domestic expenditure, on the other hand, remained fairly depressed. An estimated small decline in total expenditure in the first half of 1997 contributed to the consolidation process of restoring a better balance between total domestic production and effective demand. During the second quarter of 1997 there was, however, a noticeable recovery in demand when total gross domestic expenditure expanded again by 2 per cent, after having declined by 1 per cent in the first quarter.



Better equilibrium in the balance of payments

The salutary effects on the balance of payments of slower growth in total domestic expenditure are clearly reflected in the rapid decline in the deficit of the current account. On a seasonally adjusted annualised basis, this deficit declined from R13 billion in the second quarter of 1996 to only R3.5 billion in the second quarter of 1997.

The improvement in the current account was supported by a larger net inflow of funds reflected in the capital account of the balance of payments. The pressure on the exchange rate of the rand which continued from February to October 1996, subsided again after October, almost as suddenly as it had appeared. During the first three quarters of 1996, the net capital inflow amounted to just R285 million, but this was followed by a net inflow of R2.3 billion in the fourth quarter, and by no less than R16.7 billion in the first half of 1997.

After the rand had depreciated by as much as 25.3 per cent in nominal terms between 14 February 1996 and the end of October 1996, it appreciated by 10 per cent over the next five months. From the end of March to the end of July 1997, however, the rand depreciated again by 3.6 per cent to give a net increase of 6.0 per cent in the external value of the currency from November 1996 to the end of July 1997. It should be noted, however, that the average level of the exchange rate of the rand over the first seven months of 1997, compared with its average value over the same period in 1996, showed a depreciation in nominal terms of 8.4 per cent.

The country's gross foreign reserves held by the consolidated banking sector indeed increased by R17.2 billion over the past three quarters to reach a level of R31.1 billion at the end of June 1997. This was sufficient to cover about 9 1/2 weeks of imports of goods and services.

Monetary aggregates slow to respond

Over the past two years, the Reserve Bank has on various occasions advanced reasons why changes in the M3 money supply may have lost some of its usefulness as a reliable anchor for monetary policy. At this juncture, the Bank regards changes in M3 only as one among several important financial indicators. More recently, the Bank has become more concerned about the excessive increase in domestic bank credit extension, not only because of its influence on the money supply, but also for other reasons. There has, for example, been growing anxiety about the over-extension of the private sector's indebtedness relative to disposable income, and the increasing vulnerability of the banking sector to adverse developments in a possibly less favourable future macroeconomic environment.

The relationship between the money supply and nominal production, or the velocity of circulation of M3, may be changing, but new relationships are being established in the process of transformation. Over the longer term, it remains true that inflation cannot be sustained indefinitely unless it is fuelled by continuous excessive money creation.

Throughout 1996, the annual rate of increase in the M3 money supply fluctuated within a narrow range of between 13.6 and 16.1 per cent. By January 1997 it reached a peak of 16.8 per cent, and then declined gradually to 12.7 per cent in June 1997.

The increase in M3 has now consistently exceeded the rate of growth in the nominal value of gross domestic product for more than three years, with the result that the ratio of the total amount of money in circulation to gross domestic product has risen to 98 per cent, which is the highest level since 1980. A lack of availability of money can therefore hardly be advanced as a reason for the slowdown in real economic activity over the past eighteen months.

Total bank credit extended to the private sector likewise continued to increase at a high rate throughout 1996, and fluctuated between a peak of 18.9 per cent in July and a low of 16.1 per cent in December. During the last six months of 1997, it peaked at 17.4 per cent in April, and then declined only marginally to 16.3 per cent over the twelve months up to June.

In the present situation, the Reserve Bank feels that a cautious monetary policy stance remains justified. This has been the approach throughout the past year and undoubtedly has had a major influence on developments in the money market. The shortage of funds in this market, as reflected by the amount of accommodation required by banking institutions from the Reserve Bank, first increased from a daily average of R4.2 billion in January 1996 to R10.6 billion in March 1997, before it declined to R2.3 billion in June 1997.

The Reserve Bank raised its lending rate to banking institutions, the Bank rate, from 15 per cent at the end of 1996 to 16 per cent in April 1996, and then to 17 per cent in November 1996.

The sharply inverted shape of the yield curve in South Africa makes the comparison of the level of local interest rates with the international markets more difficult. At the long end of the spectrum, the yield on long-term Government bonds in South Africa seems to be on the low side in real terms. Short-term interest rates, and particularly bank lending rates at the other end of the yield curve, seem to be high in South Africa, reflecting negative expectations on inflation, high risk involved in more short-term lending to an already over-indebted community, and a relatively high demand for funds.

The conservative monetary policy measures applied by the Reserve Bank over the past eighteen months have paid off by containing the increase in inflation to below 10 per cent, despite the pressures arising from the depreciation of the rand last year. Measured over a period of twelve months, the rate of increase in the overall production price index, excluding the effect of the exchange rate, rose from 5.5 per cent in April 1996 to 9.9 per cent in April 1997, before declining to 8.8 per cent in June 1997.

Movements in the consumer price index followed a similar path and the increase in consumer prices, measured over twelve months, rose from 5.5 per cent in April 1996 to 9.9 per cent in April 1997, before declining to 8.8 per cent in June 1997.

At this stage, the international market imperative requires of South Africa to bring its rate of inflation gradually in line with the rest of the world. Alternatively, the country's drive towards greater participation as an important borrower of funds in the world financial markets will be constrained.

Financial market reforms pay dividends

The major reforms in South Africa's financial markets over the past few years paid good dividends in the form of substantial increases in the volume of business done through these various markets. Structural improvements introduced by the Johannesburg Stock Exchange, the Bond Exchange of South Africa, and the South African Futures Exchange (SAFEX), were also boosted by the further relaxation of exchange controls.

The importance of the formal capital markets for the economic development of South Africa can be clearly illustrated by two basic statistics. Firstly, over the eighteen months from the beginning of 1996 to the middle of 1997, the amount of new capital raised through issues on the Stock Exchange and net issues of fixed interest-bearing securities in the primary bond market amounted to approximately R20 billion. Secondly, over the same period, net purchases by non-residents of South African securities listed on the exchanges amounted to about R34 billion.

Supportive fiscal policies

The Minister of Finance applied further disciplines in his Budget proposals for 1997/98 with a commitment to reduce both government borrowing and the deficit before borrowing during the current fiscal year. In the preceding year net borrowing by government was equal to 3.1 per cent, and the budget deficit equal to 5.6 per cent of gross domestic product. The deficit for the current fiscal year is expected to be reduced to 4.0 per cent of gross domestic product.

The Government also made an important contribution to the official foreign reserves of the country by way of two bond issues in international capital markets during June 1997. The total proceeds from these two issues amounted to R3.8 billion.

The better harmonisation of monetary and fiscal policies over the past year made a major contribution to the success achieved with the objective of restoring overall financial stability after the foreign exchange market disruption of February last year.

CURRENCIES AND MONEY

Mr Yen lends the dollar a hand

MARKETS REPORT

By Simon Kuper

The dollar crept nearer the top of its perceived band against the yen yesterday, as Japan's economic gloom grew.

The dollar rose Y0.4 to close in London at Y118.9 to the yen. Most traders think Tokyo aims to keep the dollar between Y110 and Y120. That belief has been the main force holding back the dollar recently, since traders are as bullish about the US economy as they are bearish about Japan's.

But Philippa Malmgren, currency strategist at Bankers Trust in London, said she had understood from Tokyo officials at the ministry of finance and other departments that they would not mind the dollar rising above Y120 to the yen. If true, that upsets the market orthodoxy.

Japan's economic gloom

grew yesterday after Eisuke Sakakibara, vice finance minister for international affairs, told the Financial Times: "I am more concerned about the economy than I was two months ago." Mr Sakakibara, known to traders as Mr Yen for his power to move the currency, had driven the dollar down almost vertically in April and May, largely by hinting that Japan would raise interest rates to restrain its economy. But yesterday he said the economy had been hit harder by a rise in consumption tax than had been expected. Michael Burke, senior economist at Citibank in London, said: "Japanese policymakers are much less confident than they were, and with reason."

Ms Malmgren, who is in close touch with government officials in the US and Japan, has a lot to report. She says firstly that Japanese officials are not seeking to keep the dollar below Y120 to the yen. She thinks this means they would be happy to see the US cur-

rency rise to at least Y125. She has also talked to US government trade officials and members of the House ways and means committee. She says they are not worried about the growing US trade deficit with Japan. As she points out, little of the US economy consists of tradable goods, and the country is booming at the moment and content to export eco-

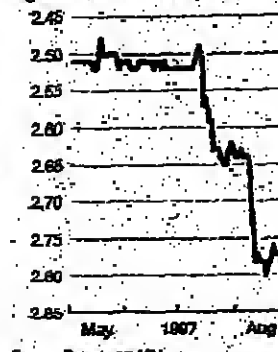
nomic growth to Japan. If the US is indeed unconcerned about the deficit, that would remove another block on the dollar.

She says that the only thing that Robert Rubin, US treasury secretary, has asked from Tokyo is lower taxes. Ms Malmgren says his rationale is that if the US economy slows next year, he wants Japan to be growing fast enough to take up the slack.

She concludes that the dollar is free to rise. Mr Sakakibara's comments yesterday may bear her out.

Malaysian dollar

Against the US dollar (RM per \$)



Source: Reuters/MTV

She concludes that the dollar is free to rise. Mr Sakakibara's comments yesterday may bear her out.

The Malaysian ringgit yesterday hit its lowest level against the dollar since it was officially floated in 1973. In late European trading it was at M\$2.8335/\$ to the US dollar, down from M\$2.7850 late on Tuesday.

Asian currencies have been falling since May, Malaysia's stock market is sliding, and the country's current account deficit is expected to surge. David Simmonds, emerging markets economist at Citibank in London, said that yesterday's sharp fall in the Indonesian rupiah, and the continued slide in the Thai baht, meant that the ringgit had to fall if Malaysian exports were to compete with those of neighbouring countries.

He said Asian central banks could no longer defend particular levels for their currencies, as earlier interest rate rises and attempts to talk currencies together had had little impact. Now they must "allow these currencies to find a level and let the market fundamentals do the talking".

POUND SPOT FORWARD AGAINST THE POUND

Aug 27	Closing mid-point	Change	Settlement	Day's high	Low	One month	Three months	One year	Bank of England
Europe	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Australia	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Canada	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
France	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Germany	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Italy	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Japan	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Netherlands	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Spain	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Sweden	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Switzerland	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
UK	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
USA	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110

1.5110 1.5111 1.5112 1.5109 1.5110 1.5110 1.5110 1.5110 1.5110 1.5110

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 27	Closing mid-point	Change	Settlement	Day's high	Low	One month	Three months	One year	JP Morgan
Europe	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Australia	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Canada	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
France	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Germany	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Italy	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Japan	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Netherlands	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Spain	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Sweden	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
Switzerland	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
UK	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110
USA	1.5110	+0.0001	1.5111	1.5112	1.5109	1.5110	1.5110	1.5110	1.5110

1.5110 1.5111 1.5112 1.5109 1.5110 1.5110 1.5110 1.5110 1.5110 1.5110

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Aug 27	BEY	DAK	PRC	DMA	IK	L	FI	I
Belgium (BFF)	10.00	18.44	16.31	4.842	1.812	2.931	5.465	2.20
Denmark (DFF)	54.23	10	8.843	2.626	0.938	2.565	1.0	1.0
France (FFF)	61.32	11.31	10	2.669	1.111	4.701	3.345	1.1
Germany (DGA)	20.65	3.009	3.368	1	3.374	0.870	1.127	4.4
Ireland (IEI)	55.18	10.18	9.000	2.672	1	2.611	3.011	1.1
Italy (I)	21.14	0.380	0.345	0.102	0.038	1.00	0.115	0.0
Netherlands (NFF)	2.98	2.98	2.98	2.98	2.98	2.98	2.98	2.98
Norway (NOF)	49.86	6.195	8.131	2.414	1.053	2.365	2.720	1.1
Portugal (PFF)	20.36	3.757	3.322	0.957	0.368	0.653	1.112	4.4
Spain (PFA)	24.42	4.500	3.988	1.182	0.442	1.155	1.332	4.4
Sweden (SFF)	47.43	8.746	7.743	2.256	0.859	2.244	2.587	0.9
Switzerland (SFF)	24.87	4.500	3.988	1.182	0.442	1.155	1.332	4.4
UK (UKF)	60.25	11.11	9.825	2.677	1.082	2.500	3.296	1.1
Canada (CSF)	26.66	4.953	4.380	1.501	0.487	1.271	1.465	5.0
USA (USF)	37.39	6.895	8.097	1.814	0.677	1.728	2.040	7.0
Japan (JFF)	31.44	5.901	3.130	1.523	0.575	1.488	1.718	6.0
Chen	40.58	7.484	8.616	1.995	0.735	1.920	2.214	6.8

COMMODITIES AND AGRICULTURE

LME takes heat out of aluminium squeeze

By Kenneth Gooding,
Mining Correspondent

The London Metal Exchange board yesterday took strong action to ease the technical squeeze in its aluminium market.

The move had an immediate impact on aluminium prices and traders suggested it might also act as a warning to those behind a squeeze rapidly developing in the LME's zinc market.

To take the heat out of the aluminium squeeze, the exchange imposed limits on the cost of carrying forward a short position for one day - known as the daily backwardation. This cost jumped to \$40 a tonne on Tuesday.

David King, chief executive, announced the new limits before trading started. Daily backwardation is limited to \$20 a tonne until September 3, then to \$10 until September 5, and then to \$5 a tonne.

The daily backwardation fell to \$10 when trading started. Also, the premium for aluminium for immediate delivery, compared with metal for three-month delivery, which had been nearly \$100 a tonne, dropped to \$35 a tonne.

Mr King said the confidential nature of the information on which the LME had acted prevented it from explaining why the limit was imposed. Next year, however, there would be more

information made available about large positions in the LME's markets and this would put participants in a better position to take appropriate action.

The LME's move was generally welcomed by traders, who said it had come as no surprise because the exchange authorities always seemed particularly concerned when the daily backwardation in any of its markets became excessive.

"Any intense squeeze wreaks havoc on the hedging programmes that genuine market users might have set up months before," said Robin Bhar, analyst at Brande (Brokers), the trading arm of Pechiney of France. "The LME should look after genuine users of its markets. Squeezers know they run the risk that the LME authorities will intervene."

Traders said the LME should now intervene in the zinc market,

where the premium for immediate delivery, compared with three-month zinc, was \$200 a tonne yesterday, close to a record level. So far, however, there is no daily backwardation in the zinc market and extreme tightness in the market will not be felt until the middle of September, analysts said.

The LME's Mr King said: "Every market situation is unique but we continue to monitor the zinc market carefully."

Seasonal buying lifts lead prices

MARKETS REPORT

By Kenneth Gooding
and Gary Mead

On the London Metal Exchange, while aluminium took nearly all the attention and most other metals remained in familiar trading ranges, lead prices moved up sharply. Traders said trade and fund buying ahead of the season of peak demand from battery makers pushed lead for three-month delivery to \$653 a tonne before profit-taking saw it ease back to close at \$651, up 50 pence.

William Adams, analyst at Ruxford Wolf, said lead could probably move up to the \$670s but it would meet technical resistance between \$650 and \$660.

Three-month copper ended up \$2 at \$2,186 a tonne. The premium for immediate delivery, compared with three-month metal, was \$15 to \$20 a tonne.

Trading in soft commodity futures on Liffa was thin, with neither coffee nor cocoa able to break out of the current lacklustre mood.

The November contract for coffee closed \$119 higher at \$1,569 a tonne, having peaked at \$1,563 a tonne. Much of the day was focused on traders rolling forward September positions, but the contract was boosted slightly by a growing consensus that the Brazilian crop will be lower than anticipated.

Cocoa also ended firmer, with the benchmark December contract up \$5 to \$1,120 a tonne, helped by news from Malaysia that the October crop may be poor, due to drought. But the market was uncertain which way to move, as other news suggested that Ivory Coast - the world's biggest producer of cocoa beans - might after all achieve a record crop.

Voisey's Bay delay likely

By Kenneth Gooding,
Mining Correspondent

It is now likely that the US\$1.4bn Voisey's Bay project in Labrador, destined to be the world's biggest and lowest-cost nickel producer, will be delayed by a year from the target start-up in late 1999.

Inco, the Canadian group that already is the biggest nickel producer, was ordered on Tuesday by a Newfoundland court of appeal to stop construction work on a road and airstrip at the Voisey's Bay mine site.

The court's decision will mean a loss of several weeks work in the Labrador construction season, which is very short because of the extreme weather conditions.

Inco, however, was still holding out some hope that it could meet its schedule of producing concentrates - an intermediate material - in 1999 and refined nickel late in 2000.

"It is still technically possible to meet the deadline," said David Allen, Inco's spokesman. "But it depends on the dates of further court hearings and, above all, on the weather in Labrador."

Mr Michael Sopko, Inco chairman, pointed out in June that start-up would be delayed by a year if the

group missed the 1999 "weather window." Voisey's is so far north that construction work is possible only between the months of June and October.

Inco argued successfully at a court hearing last month that construction of the airstrip and road were part of the exploration effort rather than development of the mine, and therefore not subject to an environmental impact assessment.

This ruling was reversed by the court after an appeal by the Labrador Inuit Association.

Construction work has been interrupted for a week because about 300 native protestors set up barricades at the site.

Work has now stopped until a further hearing for final determination of Tuesday's ruling.

Mr Allen said he understood the hearing would be on September 2 but he had no clear idea how long it would last.

The Labrador Inuit Association and the Innu Nation are insisting they cannot support the Voisey's project until they reach environmental and financial agreements with Inco.

The native groups are also negotiating land claim agreements with the Newfoundland and Canadian federal governments.

Poor crop threatens apple growers

It may have been a blazing August, but England's fruit farmers are likely to be much more hot and bothered come the winter - when some of them may be facing bankruptcy.

Abnormal weather conditions earlier this year have conspired to produce what is shaping up to be the smallest crop of apples since 1934, according to English Apples & Pears, a promotional organisation working for English fruit growers.

"The English apple crop is likely to be between 50 and 60 per cent lower than normal," according to Mike Upton, chief executive of English Fruit, a co-operative of 300 fruit farmers. On the most gloomy assessment the total apple harvest - primarily Bramleys and Coxes - could be as low as 120,000 tonnes, against 300,000 tonnes in a typical year.

"There are three factors behind this disaster," added Mr Upton, who has twice written to Jack Cunningham, minister of agriculture, to seek government help.

"The first was a severe frost on April 20. Next there was another late frost in May. And finally hailstorms in the summer have blown lots of fruit from the trees. All this was aggravated by the fact we had a particularly early spring, which meant the trees blossomed much earlier than usual."

All soft fruits, such as cherries, strawberries, raspberries and plums, have been affected in the south and east of England. But while some recovered to produce reasonable quantities, apples have been badly hit.

Grocers and supermarkets now expect much greater imports: the current strength of sterling means continental European and north American apple exporters are keenly competitive in terms of price. About 20 per cent of all fruit on sale on UK high streets is domestically produced.

The financial impact on farmers is difficult to gauge as yet, not least because picking of the leading



Not so rosy: late frosts and hailstorms have severely damaged this year's UK apple crop

English dessert apple, the Cox, will not begin in earnest until September 15.

But Mr Upton is certain that "some growers will not survive, particularly those who have not diversified into other products."

The overall impact hides a wide range of damage, as the frosts were highly localised, some orchards have seen their crop wiped out, while others have been left almost unscathed. Also, the very low crop this year follows a lower than average harvest of 240,000 tonnes last year.

Mr Upton first wrote to Mr Cunningham to seek help in June, when it became clear that the harvest might be seriously damaged. Mr Cunningham replied, saying MAFF officials would consider what might be done and would also seek EU assistance. Two weeks ago Mr Upton wrote again to Mr Cunningham, as yet he has not received a reply.

English Apples & Pears says that while the overall crop will be down, the flavour of the surviving apples will be unaffected by the frosts. Some consumers, it added, may find that the

skin condition of the fruit is below the standard that they have come to expect.

Supermarkets point out that although they will need to increase imports to make up the shortfall in the English apple harvest, frosts and storms have also hit continental European apple production, which is down by about 12 per cent from 1996.

A spokesman for retailer Tesco said: "We will still be buying as much British produce as we can. It's too early to tell what impact this will have on prices, but as continental European prices have dropped recently, we may see fairly stable prices overall, though English Coxes will inevitably be more expensive than last year."

Retailer A&A has responded by launching what it calls an "Apple Aid" campaign, including plans to stock apples that normally would be rejected on the basis of less than perfect skins, and a promotional move to stamp the Union Jack on all boxes of English apples, as against 70 per cent in the past.

But for the hard-pressed growers, Asia's most popular move is likely to be the one the customer notices least - a written commitment to all suppliers for their 1998 and 1999 crops. That might come in useful when the bank manager is thinking about foreclosing.

Gary Mead

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	3 months
Close	1690-65	1657-58
Previous	1780-85	1653-50
High/Low	1670-1540	1670-1540
AM Official	1690-92	1657-58
Kerb close	1647-48	1647-48
Open int.	251,707	103,944
Total daily turnover	103,944	103,944

ALUMINIUM ALLOY (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

LEAD (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

NICKEL (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

ZINC, special high grade (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

COPPER, grade A (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

COPPER, grade B (\$ per tonne)

	Close	Previous	High/Low	AM Official	Kerb close	Open int.	Total daily turnover
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41
5082-5-33.5	643-41	638-4	643-41	643-41	643-41	643-41	643-41

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PRECIOUS METALS CONTINUED

GOLD COMEX (100 Troy oz; \$ per oz)

	Sett	Day's	High	Low	Open
Aug	325.4	-0.2	325.2	324.8	324.8
Oct	325.4	-0.2	325.2	324.8	324.8
Nov	325.4	-0.2	325.2	324.8	324.8
Dec	325.4	-0.2	325.2	324.8	324.8
Jan	325.4	-0.2	325.2	324.8	324.8
Feb	325.4	-0.2	325.2	324.8	324.8
Mar	325.4	-0.2	325.2	324.8	324.8
Apr	325.4	-0.2	325.2	324.8	324.8
May	325.4	-0.2	325.2	324.8	324.8
Jun	325.4	-0.2	325.2	324.8	324.8
Jul	325.4	-0.2	325.2	324.8	324.8
Aug	325.4	-0.2	325.2	324.8	324.8
Oct	325.4	-0.2	325.2	324.8	324.8
Nov	325.4	-0.2	325.2	324.8	324.8
Dec	325.4	-0.2	325.2	324.8	324.8
Jan	325.4	-0.2	325.2	324.8	324.8
Feb	325.4	-0.2	325.2	324.8	324.8
Mar	325.4	-0.2	325.2	324.8	324.8
Apr	325.4	-0.2	325.2	324.8	324.8
May	325.4	-0.2	325.2	324.8	324.8
Jun	325.4	-0.2	325.2	324.8	324.8
Jul	325.4	-0.2	325.2	324.8	324.8
Aug	325.4	-0.2	325.2	324.8	324.8
Oct	325.4	-0.2	325.2	324.8	324.8
Nov	325.4	-0.2	325.2	324.8	324.8
Dec	325.4	-0.2	325.2	324.8	324.8
Jan	325.4	-0.2	325.2	324.8	324.8
Feb	325.4	-0.2	325.2	324.8	324.8
Mar	325.4	-0.2	325.2	324.8	324.8
Apr	325.4	-0.2	325.2	324.8	324.8
May	325.4	-0.2	325.2	324.8	324.8
Jun	325.4	-0.2	325.2	324.8	324.8
Jul	325.4	-0.2	325.2	324.8	324.8
Aug	325.4				

FT MANAGED FUNDS SERVICE

[illegible]

مركز من الأعمال

[illegible][illegible][illegible]

State	Party	1968	1972	1976	1980	1984	1988	1992	1996	2000	2004	2008	2012	2016	2020
Alabama	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Alaska	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Arizona	Rep	58	55	52	50	48	45	42	40	38	35	32	30	28	25
Arkansas	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
California	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Colorado	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Connecticut	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Delaware	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
District of Columbia	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Florida	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Georgia	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Hawaii	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Idaho	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Illinois	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Indiana	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Iowa	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Kansas	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Kentucky	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Louisiana	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Maine	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Maryland	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Massachusetts	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Michigan	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Minnesota	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Mississippi	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Missouri	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Montana	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Nebraska	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Nevada	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
New Hampshire	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
New Jersey	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
New Mexico	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
New York	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
North Carolina	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
North Dakota	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Ohio	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Oklahoma	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Oregon	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Pennsylvania	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Rhode Island	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
South Carolina	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
South Dakota	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Tennessee	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Texas	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Utah	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Vermont	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Virginia	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Washington	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
West Virginia	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22
Wisconsin	Dem	52	48	45	42	38	35	32	28	25	22	18	15	12	10
Wyoming	Rep	55	52	50	48	45	42	40	38	35	32	30	28	25	22

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
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1000

LONDON STOCK EXCHANGE

Footsie clammers back above the 4,900 level

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

UK stocks shrugged aside Wall Street's fairly steep slide on Tuesday and a further early bout of weakness in US stocks yesterday, preferring instead to react to hints of a small buy-side trading programme.

Adding backbone to a market that has been shaken by worries about possible interest rate rises in Germany, the US and the UK, was a fresh frisson of takeover speculation.

This ran through the banks, insurances and leisure areas of

the market, although the take-over stories were described as being of "relatively low quality as far as bid rumours go", according to one marketmaker.

He also pointed out that the gains were generally confined to the leading stocks. The second-liners and smallcap issues were virtually ignored throughout a session which saw turnover struggling to top 600m. At 6pm, overall volume reached 614.9m.

At the close, the FTSE 100 index posted a 20.8 gain at 4,906.8, halting a sequence of two successive downside performances.

The FTSE 250, on the other hand, never looked comfortable, quickly relinquishing an early

small gain and ending the day 0.4 off at 4,649.6, having slipped to touch a session low of 4,647.1. Similarly, the FTSE SmallCap index languished all day, closing 0.3 down at 2,252.8.

The day began with share prices on the slide and apparently friendly, with market-makers, anxious to drum up business, clipping their initial prices in an attempt to coax buyers back into the market.

The day's economic news, global trade figures for June and non-EU trade numbers for July, played no real part in determining stock market trends, and had little impact on gilts which were marginally easier over the day.

No real support was forthcoming for the leaders but sentiment in the market began to change in the late morning in response to the talk of a small buy programme encompassing the FTSE 100 stocks.

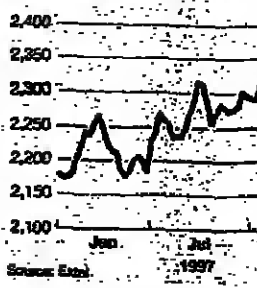
Thereafter, Footsie managed to cling on to its gains although it ended well below the session high of 4,920.3, up 34 points, recorded shortly after the US market kicked in.

The Dow Jones Industrial Average, which posted a 77-point decline overnight, resumed its downward path yesterday. A brief uptick was soon wiped out and replaced by a 50-point slide after a few minutes.

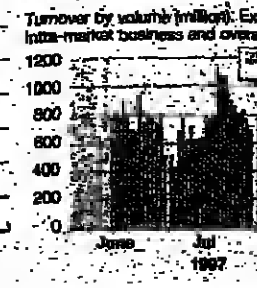
Global markets have been affected by concerns that German, US and, possibly, UK interest rates may be on the way up. Germany's Bundesbank Council meets on September 4, the UK's Monetary Policy Committee on September 11 and the US Federal Reserve's Open Market Committee on September 30.

The UK economics team at Merrill Lynch said in their latest note: "The pace of consumer demand growth is too fast for comfort and signals the need for, and likelihood of, further base rate increases. We are certainly not in the camp that believes that 7 per cent is the peak for base rates."

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4906.8	+20.8
FTSE 250	4649.6	-0.4
FTSE 350	2367.2	+8.0
FTSE All-Share	2313.32	+7.25
FTSE All-Share yield	3.39	3.45

FT 30

FT 30	3146.5	+17.5
FTSE Non-Fin p/e	19.90	19.78
FTSE 100 P/E Sep	4919.0	+19.0
10 yr Gilt yield	7.25	7.13
Long gilt/quality yield ratio	2.11	2.07

Best performing sectors

1	Electronics & Elect	+1.3
2	Telecoms	+1.2
3	Media	+1.0
4	Electricity	+1.0
5	Transport	+1.0

Worst performing sectors

1	Tobacco	-1.1
2	Tobacco	-0.8
3	Health Care	-0.6
4	Diversified Inds	-0.5
5	Alcoholic Bevs	-0.4

Double hit for Carlton

By Peter John
and Martin Brice

A potential shift in the pain and gain for the UK's independent television companies saw Carlton Communications drop 14 1/2 at 493p.

The media team at Merrill Lynch has pointed its pocket calculator at two areas - the impact of Channel 5 on the independents and the change in licence fees for the various regions.

Carlton loses on both counts. Merrill says that since the launch of Channel 5 in March, ITV viewing has fallen 7.3 per cent. Carlton, which owns Westcountry, Central and 20 per cent of Meridian and GMTV, as well as its London franchise, is one of the big casualties.

In addition, Carlton pulled off the media bid of the decade when it paid only £2,000 for its Central TV licence. In 1999, the licences are coming up for review and Merrill estimates Carlton will have to come up with another £16m.

Scottish is seen as losing about £8m but United News & Media could gain £24m. United also has 20 per cent of Channel 5, which Merrill calculates as worth 23p on the share price. Finally, Pearson's 24 per cent in Channel 5 is seen as worth 11p on the price of the owner

of the Financial Times. Scottish Media was slightly easier at 633 1/2p and United was off a penny at 699 1/2p. Pearson lifted 2 to 741p.

Rank Group was the star performer in the FTSE 100 with its shares advancing 14 1/4 to 360p. The stock was also helped by chat of a possible bid from Bass, up 15 to 827 1/2p.

However, traders pointed out that the stock had fallen from 486p in June, and at these levels produced a yield in the region of 5 per cent.

Investor interest may also have been prompted by Rank of its Butlins holiday camp format next Wednesday, while the marginal weakening of the dollar against sterling was seen as positive for the company, which has North American earnings.

Traders said the stock was also helped by the company's buy-back programme. It started the 10 per cent buy-back earlier this month when the stock stood at 345p. It needs to buy about 41.4m more shares to complete the programme, and traders said the company was having difficulty buying the stock from institutions, which have seen the price of the shares fall from 486p in June.

Norwich Union hucked the sector ahead of the stock's expected entry into the FTSE-100. The Footsie steering committee meets on September 10 and is expected to nod the life insurance company into the blue-chip index.

Tracking funds, which aim

to match the performance of the lead index and therefore need to secure appropriate weightings in its constituents, are still severely underweight in the stock.

It is estimated that the institutional holding represents about 50 per cent of the stock in issue and should be closer to 70 per cent. For a company with a capitalisation of £6.7bn that represents another 11.3bn pouring into the market.

Also, the shares have underperformed the sector recently as insurance specialists fret about the fundamentals. Norwich ended the day 10 higher at 345 1/2p on turnover of 11m.

However, one analyst said: "The tracking funds are completely risk averse and all they are interested in is performing in line with the market. They are playing a deadly game and they can't

get in too early in case the market runs away from them."

Abbey National lingered near the top of the Footsie league table in early trading as dealers positioned themselves against speculation that a bid might be imminent.

There had been mention of Lloyds TSB making a move on the bank. That was dismissed but the shares remained strong with holders saying an offer was not out of the question in spite of Abbey's protested desire for independence. HSBC was also being mentioned as a possible partner. Abbey lifted a net 16 1/4 to 839p while HSBC was steady at £21.11.

Dealers were also reviving speculation that Halifax was quietly on the prowl and that Prudential Corp might be on the menu. The story was not reflected in the

share prices however. Halifax ended 3 1/2 off at 714p while the Pru was only a penny firmer at 604p.

BT shares again brought grief for their owners, with a decline of 9 to 404 1/2p, to give the stock the second-biggest fall in the FTSE 100. They stood at 502p in July before the profits warning from merger partner MCI.

Volume yesterday was the most heavily traded. NatWest Securities yesterday told clients: "BT appears to have won the day in its discussions with MCI." Bobby Phillips at the broker, which has an "add" stance on the stock, also said: "We are concerned that the climbdown by MCI reflects a more worrying trend on competition in both the local and long-distance markets."

Securicor had the second biggest fall in the FTSE 100, with a decline of 11 1/4 to 264p after it said Edmund Hough, chief executive of its communications division, had resigned as a director and left the group.

British Borneo improved 14 to 473 1/2p after the oil exploration group boosted its presence in the deep-water Gulf of Mexico with the purchase of a majority stake in the Allegheny field.

The company bought a 60 per cent stake in the gas development offshore Louisiana from Reading & Bates of the US for \$37.5m. It also retained the option of paying \$25m for the remaining 40 per cent of the field.

Enterprise rose 3 to 894 1/2p but Cairn Energy fell back 2 1/2 to 547 1/2p on profit-taking following a recent rally prompted by a Merrill Lynch "buy" recommendation.

Whitbread was off 13 1/2 to 795p after home broker HSBC James Capel was said to have been told the company's summer trading volumes were lower than last year, which was boosted by

trade during the European football championships.

The weather during June and July was said to have depressed sales volumes.

The sentiment spread to similar stocks, with Scottish & Newcastle off 8 1/2 to 728 1/2p, Greenall's giving up 5 1/2 to 480 1/2p, and Vaux Group down 4 1/2 to 284p.

However, a bullish trading statement saw the stock advance 9 to 378 1/2p in later dealing.

Reaxam rose 7 1/2 to 302 1/2p on a recent "buy" recommendation for the paper and packaging group from Credit Lyonnais Laing. The broker, which has a "strong buy" stance on the stock, also said: "We are concerned that the climbdown by MCI reflects a more worrying trend on competition in both the local and long-distance markets."

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FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFT £25 per full index point)

	Open	Sett	Price	High	Low	Est. vol.	Open int.
Sep	4982.0	4918.0	+12.0	4953.0	4878.0	7426	69858
Oct	4954.0	4882.5	+12.5	4900.0	4846.5	137	7489
Nov	4900.0	5094.0	+9.0	5040.0	4990.0	145	1700

FTSE 250 INDEX FUTURES (LIFT £10 per full index point)

	Open	Sett	Price	High	Low	Est. vol.	Open int.
Sep	4712.0	4640	+0	4712.0	4640	0	9103

FTSE 100 INDEX OPTION (LIFT £4005 £10 per full index point)

	Open	Sett	Price	High	Low	Est. vol.	Open int.
Sep	4712.0	4640	+0	4712.0	4640	0	9103

EURO STYLE FTSE 100 INDEX OPTION (LIFT £10 per full index point)

	Open	Sett	Price	High	Low	Est. vol.	Open int.
Sep	4712.0	4640	+0	4712.0	4640	0	9103

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div.	Div. cov.	P/E	Div. yield
BP	451	3.8	10p	1.1	11.5	3.8
BT	404 1/2	4.8	10p	1.1	8.5	4.8
BT	404 1/2	4.8	10p	1.1	8.5	4.8

TRADING VOLUME

Major Stocks Yesterday

Stock	Vol.	Chng	Vol.	Chng
BP	424	+0.5	424	+0.5
BT	1,100	+0.5	1,100	+0.5
BT	1,100	+0.5	1,100	+0.5
BT	1,100	+0.5	1,100	+0.5

FTSE GOLD MINES INDEX

	Aug 27	% chg	Aug 26	Year ago	Grain, all	P/E	52 week	
					yield	ratio	High	Low
Gold Mines Index (3)	1440.82	+0.2	1448.77	2069.51				2061.95
Regional Indices								
Africa (3)	1435.56	+0.9	1442.80	2392.70	5.27	24.12	2095.00	1324.05
Australasia (2)	1602.04	+0.1	1604.34	2441.47	1.50	18.37	2441.00	1336.10
North America (1)	1423.12	+0.0	1421.74	1854.46	0.87	73.26	1854.46	1244.23
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NEW YORK STOCK EXCHANGE PRICES

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4 pm close August 27

[illegible]

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
Aerostar	US\$31.85	-0.05	65000	31.95	31.80	Loritz & Hulse	US\$25.75	-0.25	2550	26.00	25.50
Aeroquip Systems	US\$125.15	-0.125	30765	125.25	125.05	Master bit	US\$1.00	-0.01	100	1.00	0.99
Avco	US\$10.00	0.00	100	10.00	10.00	STL	US\$1.00	-0.01	100	1.00	0.99
DeSoto Holdings	US\$19.45	-0.05	1400	19.50	19.40	Pack Tech	US\$31.525	0.00	9	31.525	31.525
Dr. Solomon's AIDS	US\$24.275	-0.05	0	24.375	16.875	Schwartz-Spectronics	US\$1.00	-0.01	200	1.00	0.99
EDAP TMS	US\$87.00	0.00	0	92.50	63.075	Tracal Int'l	US\$215.00	-0.15	100	215.00	215.00
EndoMetric AIDS	US\$125.125	-0.125	0	125.25	125.00	Tuffcon Pacific	US\$25.75	-0.15	15000	25.90	25.60
US\$10.25			45000	10.25	10.10						

Prices for 2/26/87. Most data are mid prices and are now used to calculate gains and losses. *Source: DataSentry, Inc.*

Dow extends losses Zurich calls halt to four-day slide into fifth session

AMERICAS

US stocks were weak at midsession as the Dow Jones Industrial Average extended its pullback to a fifth straight session, writes John Lobato in New York.

All three leading market indices were off by early afternoon, with the Dow down 30.16 at 7,732.06. The broader Standard & Poor's 500 index lost 5.42 at 907.60 while the technology-weighted Nasdaq composite index fell 4.37 at 1,666.53.

Shares in small companies were the best performers, as the Russell 2000 index gained less than one point at 419.01.

Since last week, the Dow has lost nearly 3 per cent as the index has continued to sink further below the 8,000-point level.

Drug producers were mixed in a partial recovery from a sell-off earlier in the week. Leading the way higher were Warner-Lambert, up \$1 at \$127 and Abbott Laboratories, gaining \$1 at \$60. Bristol Myers Squibb lost ground, however, falling \$1 at \$74.

Tobacco company shares were mixed following the industry's \$11.3bn settlement with Florida reached earlier

this week. Shares in Philip Morris traded \$4 lower at \$45 while RJR Nabisco was unchanged at \$35. Loews fell \$1 at \$97.

As bond yields held steady in anticipation of a Treasury auction later in the day, banking stocks moved only slightly lower. Shares in Chase Manhattan rose \$1 at \$113 but Wachovia lost \$1 at \$81 as federal regulators approved the bank's acquisition of Jefferson Bancshares.

By early afternoon the benchmark 30-year bond was up 1/8 at 96 1/8, sending the yield lower at 6.631 per cent.

TORONTO slid lower at midday as the heavily weighted bank and gold sub-indices suffered and Wall Street declined. The TSE-300 composite index fell 40.19 to 6,657.72 in volume of 41.6m shares.

Eleven of Toronto's 14 sub-indices declined, led by the industrial banking and gold sectors. Banks shed 1.2 per cent while the gold group was almost 1 per cent weaker.

LIMA recovered some of Tuesday's losses at midsession as mining shares regrouped part of Tuesday's 4.4 per cent tumble.

At noon, the blue chip selective index was 31.06

points or 1.1 per cent higher at 2,851.24.

The hottest stock of the day was Minera Milpo, which recouped the 10 per cent it lost on Tuesday on an unconfirmed rumour that its joint venture partner, Phelps Dodge, had pulled out of the pact.

SANTIAGO edged higher in low volumes as investors remained confident enough in Chilean companies to keep the IPSA index above 130 points. The index rose 0.1 per cent to 130.09 at midsession. Telex-Chile gained 3.6 per cent to 870.00 pesos.

SOUTH AFRICA

South African shares ended slightly higher in nervous trade ahead of the release of a raft of economic data today. The all-share index gained 12.5 to 7,391.2 as the industrial index added 16.5 to 9,105.2. The thinly-traded gold index fell 9.2 to 1,030.7 as bullion eased slightly.

Volume was a relatively healthy R766m worth of shares as 187 stocks posted gains and 200 dropped. Optimism on lower interest rates persisted despite signals from the central bank that policy would remain tight.

EUROPE

The firmer dollar brought out bargain hunters in ZURICH, which called a halt to its four-day slide and the SMI index picked up 46.3 to 5,409.6.

Novartis, sharply down on Tuesday, rebounded Sfr19 to Sfr21.82 ahead of first-half results due today. Among financials, CS Group and Winterthur, under pressure since announcing plans to merge on August 11, turned higher. CS Group rose Sfr5.50 to Sfr17.90 as it confirmed an earlier statement that first-half net profit rose 70 per cent. Winterthur added Sfr2.25 to Sfr13.35.

UBS, up Sfr23 at Sfr1,508 made a belated response to Tuesday's news that it would take over the German private bank, Schroeder Muenchmeyer Hengst.

Alusuisse recovered from Tuesday's 4.6 per cent fall, which followed first-half profits figures, and rebounded Sfr34 to Sfr1,331.

Against the trend, Nestlé fell Sfr5 to Sfr1,795 as Standard & Poor's MarketScope research group said the stock, an under-achiever during the 1990s, was likely to continue underperforming.

Head of research, believed Nestlé's strategy was flawed and investors would be disappointed that L'Oreal and

FTSE Actuaries Share Indices

August 27	Index	Days %	Change	Yield	Div	Div %	Div %
World & Regional	2194.76	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 300	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 100	2194.76	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 200	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 300	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 100	2194.76	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 200	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 300	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 100	2194.76	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 200	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 300	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 100	2194.76	+0.45	+11.90	2.41	0.00	0.00	0.00
FTSE Europe 200	941.21	+0.45	+11.90	2.41	0.00	0.00	0.00
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